DRC Bank

東莞農村商業銀行股份有限公司
# Dongguan Rural Commercial Bank Co., Ltd.

(A joint stock company incorporated in the People's Republic of China with limited liability)

Stock Code: 9889

# GLOBAL OFFERING

Joint Sponsors

CMS 招商證券國際 CMBI 招银国际 農銀國際 ABC INTERNATIONAL ICBC 工银国际

Joint Global Coordinators

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Joint Bookrunners and Joint Lead Managers

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海通國際 HAITONG 建银国际 AMTD 尚乘

*IMPORTANT: If you are in any doubt about any of the contents of this prospectus, you should obtain independent professional advice.*

DRC Bank

# Dongguan Rural Commercial Bank Co., Ltd.*
# 東莞農村商業銀行股份有限公司*

*(A joint stock company incorporated in the People's Republic of China with limited liability)*

## GLOBAL OFFERING

| | | |
|---|---|---|
| **Number of Offer Shares in the Global Offering** | : | **1,148,091,000 H Shares (subject to the Over-allotment Option)** |
| **Number of International Offer Share** | : | **1,033,281,000 H Shares (subject to adjustment and the Over-allotment Option)** |
| **Number of Hong Kong Offer Shares** | : | **114,810,000 H Shares (subject to adjustment)** |
| **Maximum Offer Price** | : | **HK$8.71 per H Share, plus brokerage of 1%, SFC transaction levy of 0.0027%, and Hong Kong Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong Dollars and subject to refund)** |
| **Nominal value** | : | **RMB1.00 per H Share** |
| **Stock code** | : | **9889** |

**Joint Sponsors**

CMS 招商證券國際 CMBI 招銀国际 農銀國際 ABC INTERNATIONAL ICBC 工银国际

**Joint Global Coordinators**

農銀國際 ABC INTERNATIONAL CMS 招商證券國際 CMBI 招銀国际 ICBC 工银国际 富強證券 FORTUNE (HK) SECURITIES

**Joint Bookrunners and Joint Lead Managers**

農銀國際 ABC INTERNATIONAL CMS 招商證券國際 CMBI 招銀国际 ICBC 工银国际 富強證券 FORTUNE (HK) SECURITIES 海通國際 HAITONG 建银国际 CCB International AMTD 尚乘

Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness, and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified under the paragraph head "1. Documents delivered to the Registrar of Companies" in Appendix VIII "Documents Delivered to the Registrar of Companies and Available for Inspection" to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility as to the contents of this prospectus or any other document referred to above.

The Offer Price is expected to be fixed by a Price Determination Agreement between the Joint Global Coordinators (on behalf of the Underwriters) and us on the Price Determination Date. The Price Determination Date is expected to be on or around Wednesday, September 22, 2021 (Hong Kong time) and, in any event, not later than Friday, September 24, 2021 (Hong Kong time). The Offer Price will be not more than HK$8.71 and is currently expected to be not less than HK$7.92 per Offer Share. If, for any reason, the Offer Price is not agreed by Friday, September 24, 2021 (Hong Kong time) between the Joint Global Coordinators (on behalf of the Underwriters) and us, the Global Offering will not proceed and will lapse.

**The Joint Global Coordinators, on behalf of the Underwriters, may, where considered appropriate and with our consent, reduce the number of Hong Kong Offer Shares and/or the indicative Offer Price range below that stated in this prospectus (which is HK$7.92 to HK$8.71) at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, notices of the reduction in the number of Hong Kong Offer Shares and/or the indicative Offer Price range will be published on the website of our Bank at www.drcbank.com and on the website of the Hong Kong Stock Exchange at www.hkexnews.hk as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. Further details are set forth in the sections headed "Structure of the Global Offering" and "How to Apply for Hong Kong Offer Shares" in this prospectus.**

We are incorporated, and all our businesses are located, in the PRC. Potential investors should be aware of the differences in the legal, economic and financial systems between the PRC and Hong Kong and that there are different risk factors relating to investment in PRC-incorporated businesses. Potential investors should also be aware that the regulatory framework in the PRC is different from the regulatory framework in Hong Kong and should take into consideration the different market nature of the H Shares. Such differences and risk factors are set out in the sections headed "Risk Factors", "Appendix IV — Summary of Principal Legal and Regulatory Provisions" and "Appendix V — Summary of Articles of Association" in this prospectus.

**The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement are subject to termination by the Joint Global Coordinators (on behalf of the Hong Kong Underwriters) if certain grounds arise prior to 8:00 a.m. on the Listing Date. See the section headed "Underwriting" in this prospectus.**

The Offer Shares have not been and will not be registered under the U.S. Securities Act or any state securities law in the United States of America and may be offered and sold only outside the United States of America in offshore transactions in reliance on Regulation S under the U.S. Securities Act.

**ATTENTION**

**We have adopted a fully electronic application process for the Hong Kong Public Offering. We will not provide printed copies of this prospectus or printed copies of any application form to the public in relation to the Hong Kong Public Offering. This prospectus is available at the website of the Hong Kong Stock Exchange at www.hkexnews.hk and our website at www.drcbank.com.**
**If you require a printed copy of this prospectus, you may download and print from the website addresses above.**

* *Dongguan Rural Commercial Bank Co., Ltd. is not an authorized institution within the meaning of the Banking Ordinance (Chapter 155 of the Laws of Hong Kong), not subject to the supervision of the Hong Kong Monetary Authority, and not authorized to carry on banking and/or deposit-taking business in Hong Kong.*

September 16, 2021

## IMPORTANT NOTICE TO INVESTORS: FULLY ELECTRONIC APPLICATION PROCESS

**We have adopted a fully electronic application process for the Hong Kong Public Offering. We will not provide printed copies of this prospectus or printed copies of any application forms to the public in relation to the Hong Kong Public Offering.**

**This prospectus is available at the website of the Hong Kong Stock Exchange at www.hkexnews.hk under the "*HKEXnews > New Listings > New Listing Information*" section, and our website at www.drcbank.com. If you require a printed copy of this prospectus, you may download and print from the website addresses above.**

To apply for the Hong Kong Offer Shares, you may:

(1) apply online through the **White Form eIPO** service at **www.eipo.com.hk**;

(2) apply through the **CCASS EIPO** service to electronically cause HKSCC Nominees to apply on your behalf, including by:

i. instructing your **broker** or **custodian** who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf; or

ii. (if you are an existing **CCASS Investor Participant**) giving **electronic application instructions** through the CCASS Internet System (**https://ip.ccass.com**) or through the CCASS Phone System by calling +852 2979 7888 (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). HKSCC can also input **electronic application instructions** for CCASS Investor Participants through HKSCC's Customer Service Centre at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong by completing an input request.

We will not provide any physical channels to accept any application for the Hong Kong Offer Shares by the public. The contents of the electronic version of this prospectus are identical to the printed document as registered with the Registrar of Companies in Hong Kong pursuant to section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

If you are an **intermediary**, **broker** or **agent**, please remind your customers, clients or principals, as applicable, that this prospectus is available online at the website addresses above.

Please refer to the section headed "How to apply for Hong Kong Offer Shares" in this prospectus for further details of the procedures through which you can apply for the Hong Kong Offer Shares electronically.

Your application must be for a minimum of 1,000 Hong Kong Offer Shares and in one of the numbers set out in the table. You are required to pay the amount next to the number you select.

**Dongguan Rural Commercial Bank Co., Ltd.**

**(HK$8.71 per Hong Kong Offer Share)**

**NUMBER OF HONG KONG OFFER SHARES THAT MAY BE APPLIED FOR AND PAYMENTS**

| No. of Hong Kong Offer Shares applied for | Amount payable on application | No. of Hong Kong Offer Shares applied for | Amount payable on application | No. of Hong Kong Offer Shares applied for | Amount payable on application | No. of Hong Kong Offer Shares applied for | Amount payable on application |
|---|---|---|---|---|---|---|---|
| | HK$ | | HK$ | | HK$ | | HK$ |
| 1,000 | 8,797.78 | 25,000 | 219,944.27 | 200,000 | 1,759,554.13 | 2,000,000 | 17,595,541.34 |
| 2,000 | 17,595.54 | 30,000 | 263,933.13 | 250,000 | 2,199,442.67 | 3,000,000 | 26,393,312.01 |
| 3,000 | 26,393.32 | 35,000 | 307,921.97 | 300,000 | 2,639,331.20 | 4,000,000 | 35,191,082.68 |
| 4,000 | 35,191.08 | 40,000 | 351,910.83 | 350,000 | 3,079,219.74 | 5,000,000 | 43,988,853.35 |
| 5,000 | 43,988.86 | 45,000 | 395,899.68 | 400,000 | 3,519,108.27 | 15,000,000 | 131,966,560.05 |
| 6,000 | 52,786.62 | 50,000 | 439,888.54 | 450,000 | 3,958,996.81 | 25,000,000 | 219,944,266.75 |
| 7,000 | 61,584.40 | 60,000 | 527,866.24 | 500,000 | 4,398,885.34 | 35,000,000 | 307,921,973.45 |
| 8,000 | 70,382.16 | 70,000 | 615,843.95 | 600,000 | 5,278,662.40 | 45,000,000 | 395,899,680.15 |
| 9,000 | 79,179.94 | 80,000 | 703,821.65 | 700,000 | 6,158,439.47 | 57,405,000[1] | 505,036,025.31 |
| 10,000 | 87,977.71 | 90,000 | 791,799.37 | 800,000 | 7,038,216.54 | | |
| 15,000 | 131,966.56 | 100,000 | 879,777.07 | 900,000 | 7,917,993.60 | | |
| 20,000 | 175,955.41 | 150,000 | 1,319,665.61 | 1,000,000 | 8,797,770.67 | | |

(1) Maximum number of Hong Kong Offer Shares you may apply for.

No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

| | |
|---|---|
| Hong Kong Public Offering commences | 9:00 a.m. on Thursday, September 16, 2021 |
| Latest time for completing electronic applications under the **White Form eIPO** service through the designated website **www.eipo.com.hk**[2] | 11:30 a.m. on Tuesday, September 21, 2021 |
| Application lists for the Hong Kong Public Offering open[3] | 11:45 a.m. Tuesday, September 21, 2021 |
| Latest time for (a) completing payment for the **White Form eIPO** applications by effecting internet banking transfer(s) or PPS payment transfer(s) and (b) giving **electronic application instructions** to HKSCC[4] | 12:00 noon Tuesday , September 21, 2021 |
| If you are instructing your **broker** or **custodian** who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf, you are advised to contact your **broker** or **custodian** for the latest time for giving such instructions which may be different from the latest time as stated above. | |
| Application lists close[3] | 12:00 noon Tuesday, September 21, 2021 |
| Expected Price Determination Date[5] | Wednesday, September 22, 2021 |
| Announcement of:<br>• the Offer Price;<br>• indications of the level of interest in the International Offering and the level of applications in the Hong Kong Public Offering; and<br>• the basis of allocations of the Hong Kong Offer Shares<br>to be published on our website at **www.drcbank.com**[6] and the website of the Hong Kong Stock Exchange at **www.hkexnews.hk**[6] on or before | Tuesday, September 28, 2021 |
| the results of allocations in the Hong Kong Public Offering (with successful applicants' identification document numbers, where appropriate) to be available through a variety of channels, including | |
| • in the announcement to be posted on the website of our Bank at **www.drcbank.com** and the website of the Hong Kong Stock Exchange at **www.hkexnews.hk** | Tuesday, September 28, 2021 |
| • from the designated results of allocations website at **www.iporesults.com.hk** (alternatively: English **https://www.eipo.com.hk/en/Allotment**; Chinese **https://www.eipo.com.hk/zh-hk/Allotment)** with a "search by ID" function from | 8:00 a.m. on Tuesday, September 28, 2021 to 12:00 midnight on Monday, October 4, 2021 |
| • from the allocation results telephone enquiry by calling +852 2862 8555 between 9:00 a.m. and 6:00 p.m. on | Tuesday, September 28, 2021, Wednesday, September 29, 2021, Thursday, September 30, 2021, and Monday, October 4, 2021 |
| Dispatch/Collection of H Share certificates or deposit of H share certificates into CCASS in respect of wholly or partially successful applications under the Hong Kong Public Offering on or before[7][9] | Tuesday, September 28, 2021 |
| Dispatch/Collection of **White Form eIPO** e-Refund payment instructions/ refund cheques on or before[8][9] | Tuesday, September 28, 2021 |
| Dealings in the H Shares on the Hong Kong Stock Exchange expected to commence at[9] | 9:00 a.m. on Wednesday, September 29, 2021 |

(1) All dates and times refer to Hong Kong local times and dates, except as otherwise stated.

(2) You will not be permitted to submit your application through the designated website at **www.eipo.com.hk** after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the designated website at or before 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.

(3) If there is a "black" rainstorm warning signal or a tropical cyclone warning signal number 8 or above and/or Extreme Conditions in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Tuesday, September 21, 2021, the application lists will not open and close on that day. See section headed "How to apply for Hong Kong Offer Shares — C. Effect of bad weather and/or Extreme Conditions on the opening and closing of the application lists".

(4) Applicants who apply for the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC should refer to "How to apply for Hong Kong Offer Shares — A. Applications for Hong Kong Offer Shares — 6. Applying By Giving Electronic Application Instructions To HKSCC Via CCASS".

(5) The Price Determination Date is expected to be on or about Wednesday, September 22, 2021 and, in any event, not later than Friday, September 24, 2021, or such other date as agreed among the parties. If, for any reason, the Offer Price is not agreed by Friday, September 24, 2021, or such other date as agreed, between the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and our Bank, the Global Offering will not proceed and will lapse.

(6) None of the websites or any of the information contained on the website(s) forms part of this prospectus.

(7) The H Share certificates will only become valid at 8:00 a.m. on the Listing Date, which is expected to be Wednesday, September 29, 2021, **provided that** the Global Offering has become unconditional in all respects and none of the Underwriting Agreements have been terminated in accordance with its terms at or before that time. Investors who trade H Shares on the basis of publicly available allocation details prior to the receipt of the H Share certificates and prior to the H Share certificates becoming valid do so entirely at their own risk.

(8) e-Refund payment instructions/refund cheques will be issued in respect of wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offering and also in respect of wholly or partially successful applications in the event that the final Offer Price is less than the price payable per Offer Share on application. Part of the applicant's Hong Kong identity card number or passport number, or, if the application is made by joint applicants, part of the Hong Kong identity card number or passport number of the first-named applicant, provided by the applicant(s) may be printed on the refund cheque, if any. Such data would also be transferred to a third party for refund purposes. Banks may require verification of an applicant's Hong Kong identity card number or passport number before encashment of the refund cheque. Inaccurate completion of an applicant's Hong Kong identity card number or passport number may invalidate or delay encashment of the refund cheque.

(9) Applicants who have applied on **White Form eIPO** for 1,000,000 or more Hong Kong Offer Shares may collect any refund cheques (where applicable) and/or H Share certificates in person from our H Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Tuesday, September 28, 2021 or such other date as notified by us as the date of dispatch/collection of H Share certificates/e-Refund payment instructions/refund cheques. Applicants being individuals who are eligible for personal collection may not authorize any other person to collect on their behalf. Individuals must produce evidence of identity acceptable to our H Share Registrar at the time of collection.

Applicants who have applied for the Hong Kong Offer Shares through **CCASS EIPO** service should refer to "How to Apply for the Hong Kong Offer Shares — G. Despatch/Collection of H Share certificates and refund monies — Personal Collection — If you apply through **CCASS EIPO** service" for details.

Applicants who have applied through the **White Form eIPO** service and paid their applications monies through single bank account may have refund monies (if any) dispatched to the bank account in the form of e-Refund payment instructions. Applicants who have applied through the **White Form eIPO** service and paid their application monies through multiple bank accounts may have refund monies (if any) dispatched to the address as specified in their application instructions in the form of refund cheques by ordinary post at their own risk.

H Share certificates and/or refund cheques for applicants who have applied for less than 1,000,000 Hong Kong Offer Shares and any uncollected H Share certificates and/or refund cheques will be dispatched by ordinary post, at the applicants' risk, to the addresses specified in the relevant applications.

Further information is set out in "How to Apply for the Hong Kong Offer Shares – F. Refund of application monies" and "How to Apply for the Hong Kong Offer Shares — G. Despatch/Collection of H Share certificates and refund monies."

(10) In case a typhoon warning signal no. 8 or above, a black rainstorm warning signal and/or Extreme Conditions is/are in force in any days between Thursday, September 16, 2021 to Wednesday, September 29, 2021, then the day of (i) announcement of results of allocations in the Hong Kong Public Offering; (ii) dispatch of H Share certificates and refund cheques/**White Form eIPO** e-Refund payment instructions; and (iii) dealings in the H Shares on the Hong Kong Stock Exchange may be postponed and an announcement may be made in such event.

**The above expected timetable is a summary only. You should read carefully the sections headed "*Underwriting*", "*Structure of the Global Offering*" and "*How to apply for Hong Kong Offer Shares*" for details relating to the structure and conditions of the Global Offering, procedures on the applications for Hong Kong Offer Shares, and expected timetable, including conditions, effect of bad weather and the dispatch of refund cheques and H Share certificates.**

***This prospectus is issued by Dongguan Rural Commercial Bank Co., Ltd. solely in connection with the Hong Kong Public Offering and the Hong Kong Offer Shares and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Hong Kong Offer Shares offered by this prospectus pursuant to the Hong Kong Public Offering. This prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the H Shares in any jurisdiction other than Hong Kong, and no action has been taken to permit the distribution of this prospectus in any jurisdiction other than Hong Kong. The distribution of this prospectus and the offering and sale of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom.***

***You should rely only on the information contained in this prospectus and the Green Application Form to make your investment decision. Information contained on our website at www.drcbank.com does not form part of this prospectus. We have not authorized anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not made in this prospectus must not be relied on by you as having been authorized by us, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters or any of their respective directors, or any other persons or parties involved in the Global Offering.***

| | |
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*This summary aims to give you an overview of the information contained in this prospectus. As it is a summary, it does not contain all the information that may be important to you. You should read the whole document before you decide to invest in the H Shares. There are risks associated with any investment. Some of the particular risks in investing in the H Shares are set out in "Risk Factors". You should read that section carefully before you decide to invest in the H Shares.*

## OVERVIEW

We are the fifth largest rural commercial bank[1] in China in terms of total assets as of December 31, 2020, according to the "Top 100 Banks in China of 2021" released by China Banking Association in 2021[2]. According to the British journal "The Banker" published in July 2021, we ranked the 261st among commercial banks globally, the 44th among commercial banks in the PRC and the sixth among the rural commercial banks in the PRC in terms of tier-one capital as of December 31, 2020.

We are the leading commercial bank in Dongguan. Our Bank has ranked the first among banking institutions in Dongguan each year since 2005 in terms of year-end balance of deposits and loans, according to PBoC Dongguan Center Branch. As of March 31, 2021, RMB-denominated deposits and loans of our Bank accounted for approximately 18.78% and 18.63% of the balances of RMB-denominated deposits and loans of all the banking institutions in Dongguan as of the same date, respectively, according to the same source.

We provide tailor-made financial products and services through our extensive distribution network in Dongguan. According to CBIRC Dongguan Office, we have the largest number of outlets among commercial banks in Dongguan. As of the Latest Practicable Date, 501 out of the total 505 outlets of our Bank were located in Dongguan that cover all administrative districts. Such broad network coverage extends customer reach and deepens penetration into the local market. As of the Latest Practicable Date, we also had four branches outside Dongguan, located in Guangzhou, Zhuhai, Huizhou and Qingyuan in Guangdong Province, respectively. In addition, we have jointly-established four county banks with third parties, which are located in Dongguan, Huizhou and Yunfu in Guangdong Province and Hezhou in Guangxi Zhuang Autonomous Region. We also jointly-established two rural commercial banks with third parties in Zhanjiang and Shantou in Guangdong Province.

Our Bank was initially established in rural area and has been developing together with the industrialization of Dongguan. Sannong (三農), namely agriculture, rural areas and farmers customers are the core customers of our Bank and provide strong support for our development. We closely monitor the financial needs of modern Sannong customers, modern manufacturing "three chains" (namely, industrial chain, supply chain and value chain) customers, SMEs customers and other private enterprises. Strategically we focus on strengthening our five financial brands, namely, "Retail Finance" that provides all-round financial services to retail customers, "Industrial Finance" that emphasizes serving key industries in Dongguan, "SME Finance" that provides comprehensive financial services to SMEs, "Inter-bank Finance" that integrates cross-market services

1 Rural commercial bank is a type of rural financial institutions which originated from rural credit cooperatives, pursuant to the Notice on Deepening the Pilot Program of Rural Credit Cooperatives Reform (《關於深化農村信用社改革試點方案的通知》) (Guo Fa [2003] No.15) issued by the State Council.

2 Not including commercial banks of which annual reports or effective audited annual reports were not available at the issuance of the rankings in July 2021.

and "Digital Finance" that aims to capture the digital trend to develop our online business, which we believe enable us to procure quality customers through a market-focused approach and by providing comprehensive financial services, and therefore enhance our overall competitiveness.

We are committed to business prudence and sustainable development. Supported by our comprehensive risk management system, we achieved considerable growth in asset size while maintaining our asset quality. Our total assets increased from approximately RMB407,904.7 million as of December 31, 2018 to RMB548,402.0 million as of December 31, 2020, representing a CAGR of 16.0%. As of March 31, 2021, our total assets has further increased to approximately RMB564,558.2 million. Our NPL ratio as of December 31, 2018, 2019 and 2020 was 1.27%, 1.00% and 0.82%, respectively, lower than the arithmetic mean of NPL ratios of PRC regional banks (including city commercial banks and rural commercial banks) that were listed in Hong Kong as of the date of this prospectus, which was 1.86%, 2.04% and 1.90% as of the same dates, respectively, based on data extracted from the published annual reports of such PRC regional banks. Our NPL ratio further decreased to 0.79% as of March 31, 2021.

In addition, we maintained strong profitability and operational efficiency during the Track Record Period. Our operating income increased from approximately RMB9,777.6 million for the year ended December 31, 2018 to RMB12,047.0 million for the year ended December 31, 2020, representing a CAGR of 11.0%. For the three months ended March 31, 2020 and 2021, our operating income amounted to approximately RMB3,173.1 million and RMB3,156.0 million respectively. Our net interest margin increased from approximately 2.05% for the year ended December 31, 2018 to approximately 2.16% for the year ended December 31, 2020, and our net interest spread increased from approximately 1.98% for the year ended December 31, 2018 to approximately 2.10% for the year ended December 31, 2020. For the three months ended March 31, 2021, our net interest margin and net interest spread was approximately 1.98% and 1.91%, respectively. For the year ended December 31, 2020, our return on average assets was 1.00% and return on average equity was 13.64%, higher than the arithmetic mean of the returns on average assets and returns on average equity of PRC regional banks (including city commercial banks and rural commercial banks) that were listed in Hong Kong as of the date of this prospectus, which was approximately 0.52% and 6.91% for the same year, respectively, based on data extracted from the published annual reports of such PRC regional banks. For the three months ended March 31, 2021, our return on average assets was approximately 1.26% and return on average equity was 16.71%. Our Bank was among the first group of rural credit cooperative association unions approved by PBoC to participate in the inter-bank financing market of China. According to CCICR, our corporate credit rating has remained at AAA since October 2017, the highest credit rating of corporates in China.

## OUR COMPETITIVE STRENGTHS

We have the following competitive strengths:

- The fifth largest rural commercial bank in China with distinctive geographic advantage in the Greater Bay Area
- A solid foundation for growth provided by the prospering local modern Sannong (三農) businesses
- Comprehensive retail banking services and steadily growing retail banking business
- A new model of industrial finance business that covers upstream and downstream industry chain

- A new model of SME finance business that increases market share in emerging financial market
- Widely adopting intelligent information technologies and implementation of advanced operation system for efficiency improvement
- Comprehensive risk management system and high-quality credit assets
- Long-term steady shareholder support and cohesive modern financial enterprise culture

For details on our competitive strengths, please see "Business — Our Competitive Strengths".

**OUR BUSINESS STRATEGIES**

Our strategic objective is to develop into a regional modern rural commercial banking group.

- Capitalize on modern Sannong business development to grow the market share of our rural financial business
- Build a leading core business system and continuously improve competitiveness
- Develop a new "1+3+N" grid management system and upgrade customer management system
- Accelerate financial technology application and introduce new initiatives for reform and development
- Improve our comprehensive risk management system to ensure effective management and control of risks
- Improve human resources management and create modern financial enterprise culture

For details on our business strategies, please see "Business — Our Business Strategies".

**RISK FACTORS**

Investing in our Shares involves certain risks and uncertainties, including but not limited to the followings:

- We generated a substantial portion of our revenue in Dongguan, where our business and operations are primarily concentrated. As such, we face uncertainties associated with national and local government policies and measures which are adopted to promote local economic development.
- Our financial condition and results of operations depend significantly on our ability to continue to maintain and improve the quality of our loan portfolio. In addition, our allowance for expected credit losses on loans may not be sufficient to cover the actual losses on our loan portfolio in the future. Significant deterioration of our loan portfolio quality and increases in our allowance for expected credit losses on loans could have a material adverse effect on our financial position and results of operations.
- We mainly rely on customer deposits to fund our business, and the decrease of such deposits may reduce our funding sources and our ability to extend new loans and meet the required liquidity.
- We face concentration risks from our credit exposure to certain industries and borrowers, and our investments in rights to earnings on credit assets and fund investments.
- The recent outbreak of the contagious COVID-19 in the PRC and worldwide may have an adverse effect on our business, financial condition and results of operations.

- We are exposed to risks arising from loans granted to SMEs.

- We are exposed to risks associated with any significant or protracted downturn in, or change in government policies adversely affecting, the real estate market in the PRC.

- A portion of our loans and advances to customers are not secured by collateral or guarantee, and the collateral or guarantees of other loans may not be sufficient or fully realizable.

- Natural disasters, epidemics, acts of war or terrorism or other factors beyond our control may have a material adverse effect on our business operations, financial condition and results of operations.

For details on our risk factors, please see “Risk Factors”.

## SUMMARY HISTORICAL FINANCIAL INFORMATION

You should read the summary historical financial information set forth below in conjunction with our historical financial information included in the Accountant’s Report set out in Appendix I, which has been prepared in accordance with the IFRS and the sections “Assets and Liabilities” and “Financial Information“. The statements of profit or loss and other comprehensive income for the years ended December 31, 2018, 2019 and 2020 and for the three months ended March 31, 2021, and the statement of financial position as of December 31, 2018, 2019 and 2020 and March 31, 2021 set out below are extracted from the Accountant’s Report set out in Appendix I.

The classification of financial assets under IFRS 9 requires us to consider the business model and the contractual cash flow characteristics of financial assets to determine classification and subsequent measurement. Further, for financial assets that will be classified as “amortized cost” or “fair value through other comprehensive income” under IFRS 9, we are required to apply an expected credit loss impairment model under IFRS 9, which uses more forward-looking information instead of an objective evidence of impairment as a precondition for recognizing credit losses. Such estimate of expected credit losses is subjective in nature, as it is based on many factors beyond our control and is therefore subject to inherent limitations and uncertainties. Please see the Accountant’s Report in Appendix I and the section headed “Financial Information — Critical Accounting Estimates and Judgment”.

## SUMMARY HISTORICAL INCOME STATEMENT DATA

The following table sets forth our statements of profit or loss and other comprehensive income as of the periods indicated.

| | For the years ended December 31, | | | For the three months ended March 31, | |
|---|---|---|---|---|---|
| | 2018[1] | 2019[1] | 2020[1] | 2020[1] | 2021[1] |
| | *(in millions of RMB, except otherwise indicated)* | | | | |
| Interest income | 16,114.7 | 17,353.1 | 19,517.6 | 4,757.6 | 5,304.3 |
| Interest expense | (8,794.3) | (8,551.9) | (9,585.2) | (2,230.4) | (2,724.0) |
| **Net interest income** | 7,320.4 | 8,801.2 | 9,932.4 | 2,527.2 | 2,580.3 |
| Fee and commission income | 1,052.7 | 1,184.1 | 995.1 | 207.1 | 226.1 |
| Fee and commission expense | (101.1) | (129.3) | (54.7) | (14.8) | (32.7) |
| **Net fee and commission income** | 951.6 | 1,054.8 | 940.4 | 192.3 | 193.4 |
| Net trading gains | 1,223.0 | 1,133.3 | 881.3 | 361.3 | 308.2 |
| Net gains on financial investments | 82.0 | 462.9 | 181.9 | 57.6 | 57.5 |
| Other operating income[1] | 200.6 | 343.0 | 111.0 | 34.7 | 16.6 |
| **Operating income** | 9,777.6 | 11,795.2 | 12,047.0 | 3,173.1 | 3,156.0 |
| **Operating expense** | (3,049.3) | (3,535.8) | (3,924.9) | (1,008.3) | (899.0) |
| Expected credit losses and asset losses | (1,717.1) | (2,593.5) | (2,774.3) | (437.2) | (272.6) |
| Operating profit | 5,011.2 | 5,665.9 | 5,347.8 | 1,727.6 | 1,984.4 |
| Share of profit of investments accounted by equity method | 23.0 | 34.9 | 24.3 | 6.3 | 15.7 |
| **Profit before tax** | 5,034.2 | 5,700.8 | 5,372.1 | 1,733.9 | 2,000.1 |
| Income tax expense | (580.9) | (830.6) | (316.8) | (206.4) | (240.9) |
| **Net profit** | 4,453.3 | 4,870.2 | 5,055.3 | 1,527.5 | 1,759.2 |
| Net profit attributable to our shareholders | 4,482.4 | 4,935.9 | 4,856.9 | 1,500.9 | 1,711.8 |
| Net profit attributable to non-controlling interests | (29.1) | (65.7) | 198.4 | 26.6 | 47.4 |

*Notes:*

(1) Consisted primarily of gains from disposal of fixed assets, rental income, government grants and others.

Our net interest income increased by approximately 2.1% from RMB2,527.2 million for the three months ended March 31, 2020 to RMB2,580.3 million for the three months ended March 31, 2021, primarily attributable to an 11.5% increase in interest income, which was in turn due to a 20.7% increase in the average balance of our interest-earning assets resulting from a 26.2% increase in the average size of our loans and advances to customers. The relatively moderate increase of approximately 2.1% in net interest income for the three months ended March 31, 2021 as compared to the same period in 2020 was attributable to various factors, including (i) the decrease in profit margin from interest-earning assets due to the ongoing reform of LPR mechanism, for more details, please see "Risk Factors—Risks Relating to the PRC Banking Industry—Further liberalization of interest rates, PBoC's adjustments to the benchmark interest rates, the ongoing reform of the LPR mechanism, the deposit insurance program and other regulatory changes in the PRC banking industry may materially and adversely affect our financial condition and results of operations"; (ii) the relatively low interest rates on loans to certain qualified corporate borrowers in response to the relevant government policies that encourage support for qualified corporations that were negatively affected by the COVID-19 pandemic; and (iii) the increase in deposit interests we paid in response to intensified competition for deposit in the market. Our net interest income increased by approximately 12.9% from RMB8,801.2 million for the year ended December 31, 2019 to RMB9,932.4 million for the year ended December 31, 2020, primarily due to a 12.5% increase in our interest income, which was in turn driven by a 14.2% increase in the average balance of our interest-earning assets primarily resulted from a 23.6% increase in the average size of loans and advances to customers. Our net interest income increased by approximately 20.2% from RMB7,320.4 million for the year ended December 31, 2018 to RMB8,801.2 million for the year ended December 31, 2019, primarily due to a 7.7% increase in our interest income and a 2.8% decrease in our interest expense which was mainly due to the decrease in market interest rates that led to the decrease in the average yield on the financial assets sold under repurchase agreements, deposits and placements from banks and other financial institutions.

Our net fee and commission income slightly increased by approximately 0.6% from RMB192.3 million for the three months ended March 31, 2020 to RMB193.4 million for the three months ended March 31, 2021, primarily attributable to the increase of income from custodian and wealth management agency services, partially offset by the decrease of income from bank card services. Our net fee and commission income decreased by approximately 10.8% from RMB1,054.8 million for the year ended December 31, 2019 to RMB940.4 million for the year ended December 31, 2020, primarily due to the decrease in revenue from bank card service and wealth management agency service, which was in turn due to the downward adjustment of bank card service fees in response to the market competition and to support rural vitalization, and slower growth in the scale of wealth management business during the transitional period of net value after the implementation of the 2018 Guiding Opinion on Asset Management. Our net fee and commission income increased by approximately 10.8% from RMB951.6 million for the year ended December 31, 2018 to RMB1,054.8 million for the year ended December 31, 2019. The increase was mainly due to a 47.4% increase of income from wealth management agency service from approximately RMB311.6 million for the year ended December 31, 2018 to RMB459.3 million for the year ended December 31, 2019 resulted from improved interest rate spreads.

Our operating income slightly decreased by approximately 0.5% from RMB3,173.1 million for the three months ended March 31, 2020 to RMB3,156.0 million for the three months ended March 31, 2021, primarily attributable to a 22.1% increase of interest expense resulting from the continued interest rate liberalization in the PRC, the increase in medium-term lending facilities and the intensification of price competition in the PRC banking industry, which was partially offset by an 11.5% increase of interest income due to increase in our interest-earning assets. Our operating income increased by approximately 2.1% from RMB11,795.2 million for the year ended December 31, 2019 to RMB12,047.0 million for the year ended December 31, 2020. Our operating income increased by approximately 20.6% from RMB9,777.6 million for the year ended December 31, 2018 to RMB11,795.2 million for the year ended December 31, 2019. In addition to the impact from changes in our net interest income and net fee and commission income, our operating income was also affected by changes in our net gains on financial investment, which (i) increased for the year ended December 31, 2019 mainly due to a significant increase in operating income from our treasury business as a result of the downward adjustment of market rates in general; and (ii) increased significantly for the year ended December 31, 2020, which partially offset by the decrease in changes in the fair value of debt securities and fund investments we invested as a result of increased interest rates of debt securities market.

Our expected credit losses and asset losses decreased by approximately 37.6% from RMB437.2 million for the three months ended March 31, 2020 to RMB272.6 million for the three months ended March 31, 2021, primarily due to a decrease of RMB169.9 million in allowance for expected credit losses resulted from the decrease in the amount and proportion of our non-normal loans for the first three months of 2021. Our expected credit losses and asset losses increased by approximately 7.0% from RMB2,593.5 million for the year ended December 31, 2019 to RMB2,774.3 million for the year ended December 31, 2020, mainly due to an asset loss on the investment in 2020. An asset loss of RMB2,298.2 million was recognized based on the fair value assessment of certain underlying rights to earning assets of Chaoyang RCCU we acquired from an independent party through public tender. For more details, please see "Financial Information — Results of Operations for the Three Months Ended March 31, 2020 and 2021 — Expected Credit Losses and Asset Losses" and "Financial Information — Results of Operations for the Years Ended December 31, 2019 and 2020 — Expected Credit Losses and Asset Losses". Our expected credit losses and asset losses increased by approximately 51.0% from RMB1,717.1 million for the year ended December 31, 2018 to RMB2,593.5 million for the year ended December 31, 2019, primarily due to the increase in allowance for expected credit losses to enhance our risk resistibility in response to the increase in loans and advances to customers and the increase in credit risk in debt securities market.

Our expected credit losses and asset losses rate (the "**ECL rate**") is calculated under the expected credit losses impairment model by dividing expected credit loss allowance by the balance of related assets. The ECL rate for our loans and advances to customers measured at amortized cost decreased from approximately 4.96% for the year ended December 31, 2018 to 3.87% for the year ended December 31, 2019, primarily due to the fact that our personal loans to retail banking customers, which has a relatively lower ECL rate, increased from approximately RMB49,541.7 million to RMB80,048.3 million as of December 31, 2018 and 2019, respectively, and further decreased to approximately 3.13% for the year ended December 31, 2020 because corporate loans, which has a relatively higher ECL rate, maintained relatively stable as of December 31, 2019 and 2020, respectively, while our NPL ratio decreased from approximately 1.52% to 0.94% as of the same dates. The ECL rate for our loans and advances to customers measured at amortized cost decreased from approximately 3.13% for the year ended December 31, 2020 to 3.07% for the three months ended March 31, 2021, primarily due to the increase in newly extended loans and advances to customers that classified as normal with relatively lower ECL rate. In addition, our ECL rate for financial investment measured at amortized cost decreased from approximately 0.17% for the year ended December 31, 2018 to 0.14% for the year ended December 31, 2019, and further decreased to approximately 0.11% for the year ended December 31, 2020, primarily due to the decrease of financial investment in corporate bonds and non-standard assets that have relatively higher credit risk and ECL rate, which was resulted from our prudent investment policy adopted during the Track Record Period. The ECL rate for financial investment measured at amortized cost remained stable at approximately 0.11% and 0.10% for the year ended December 31, 2020 and the three months ended March 31, 2021, respectively.

For further discussion on the fluctuations in our statements of profit or loss and other comprehensive income, please see "Financial Information — Results of Operations for the Years Ended December 31, 2018 and 2019", "Financial Information — Results of Operations for the Years Ended December 31, 2019 and 2020" and "Financial Information — Results of Operations for the Three Months Ended March 31, 2020 and 2021".

Our principal lines of businesses include corporate banking, retail banking and treasury business. For details on our principal businesses, please see "Business — Our Principal Businesses". The following table sets forth our key operating results by segments for the periods indicated.

| | For the years ended December 31, | | | | | | | | | | | | | | | For the three months ended March 31, | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2018 | | | | | 2019 | | | | | 2020 | | | | | 2020 | | | | | 2021 | | | | |
| | Corporate banking | Retail banking | Treasury business | Others(1) | Total | Corporate banking | Retail banking | Treasury business | Others(1) | Total | Corporate banking | Retail banking | Treasury business | Others(1) | Total | Corporate banking | Retail banking | Treasury business | Others(1) | Total | Corporate banking | Retail banking | Treasury business | Others(1) | Total |
| | (in millions of RMB) | | | | | | | | | | | | | | | | | | | | | | | | |
| Net interest income | 3,893.3 | 3,215.5 | 211.6 | — | 7,320.4 | 4,530.3 | 3,607.1 | 663.8 | — | 8,801.2 | 5,281.0 | 4,475.6 | 175.8 | — | 9,932.4 | 1,332.1 | 1,122.6 | 72.5 | — | 2,527.2 | 1,493.9 | 1,122.6 | (36.2) | — | 2,580.3 |
| Net fee and commission income | 101.4 | 794.6 | 37.4 | 18.2 | 951.6 | 65.3 | 910.5 | 69.9 | 9.1 | 1,054.8 | 138.4 | 764.9 | 22.0 | 15.1 | 940.4 | 28.9 | 151.1 | 11.1 | 1.2 | 192.3 | 31.9 | 147.6 | 3.7 | 10.2 | 193.4 |
| Operating income | 4,046.2 | 4,012.8 | 1,467.7 | 250.9 | 9,777.6 | 4,671.8 | 4,523.9 | 2,204.7 | 394.8 | 11,795.2 | 5,501.0 | 5,286.1 | 1,385.8 | (125.9) | 12,047.0 | 1,380.0 | 1,281.4 | 475.8 | 35.9 | 3,173.1 | 1,560.0 | 1,287.2 | 291.4 | 17.4 | 3,156.0 |
| Operating expenses | (792.9) | (1,635.0) | (384.3) | (237.1) | (3,049.3) | (956.2) | (1,935.8) | (518.5) | (125.3) | (3,535.8) | (1,263.5) | (2,215.8) | (392.9) | (52.7) | (3,924.9) | (363.4) | (549.3) | (81.2) | (14.4) | (1,008.3) | (363.3) | (421.0) | (95.2) | (19.5) | (899.0) |
| Profit before tax | 2,180.0 | 2,350.9 | 466.5 | 36.8 | 5,034.2 | 3,260.2 | 2,253.2 | (117.0) | 304.4 | 5,700.8 | 4,041.8 | 2,941.7 | 841.2 | (2,452.6) | 5,372.1 | 827.1 | 635.1 | 243.9 | 27.8 | 1,733.9 | 1,170.4 | 765.8 | 50.3 | 13.6 | 2,000.1 |

*Note:*

(1) Mainly consisted of income and expenses that was not directly attributable to any specific segment.

Operating income from our treasury business decreased by approximately 38.8% from RMB475.8 million for the three months ended March 31, 2020 to RMB291.4 million for the three months ended March 31, 2021, primarily due to the decrease in net interest income resulted from the increase in interest expenses. Operating income from our treasury business decreased by approximately 37.1% from RMB2,204.7 million for the year ended December 31, 2019 to RMB1,385.8 million for the year ended December 31, 2020, primarily due to (i) the decrease of the average balance of rediscounted bills, resulting in the decrease in the interest income from rediscounted bills; and (ii) the decrease in investment in credit securities to control credit risk effectively, resulting in the decrease in interest income from credit securities. Operating income from our treasury business increased by approximately 50.2% from RMB1,467.7 million for the year ended December 31, 2018 to RMB2,204.7 million for the year ended December 31, 2019, primarily due to the decrease in the cost of interbank liabilities, which was in turn a result of the decrease in the prevailing market interest rate. Profit before tax of our treasury business turned around from loss before tax in 2019 to profit before tax in 2020 was mainly due to the significant decrease of expected credit losses and asset losses of our treasury business from approximately RMB1,803.2 million in 2019 to RMB151.8 million in 2020, which was in turn resulted from our effective control of credit risk to decrease investment in credit securities with relatively high credit risk. Loss before tax in "Others" for the year ended December 31, 2020 was in relation to the recognition of an asset losses of approximately RMB2,298.2 million based on the fair value of the assets attributable to us in relation to certain underlying rights to earning assets of Chaoyang RCCU we acquired from an independent party through public tender.

## SUMMARY HISTORICAL STATEMENT OF FINANCIAL POSITION DATA

The following table sets forth the selected data of our statement of financial position as of the dates indicated.

| | As of December 31, | | | As of March 31, |
|---|---|---|---|---|
| | **2018** | **2019** | **2020** | **2021** |
| | | *(in millions of RMB)* | | |
| **ASSETS** | | | | |
| Cash and balances with central banks | 40,296.9 | 39,557.2 | 38,576.5 | 36,955.9 |
| Financial assets held under resale agreements and deposits and placements with banks and other financial institutions | 15,033.6 | 21,299.7 | 18,707.4 | 19,338.9 |
| Loans and advances to customers[(1)] | 157,445.7 | 198,970.6 | 254,641.8 | 268,689.9 |
| Financial investments | 188,997.4 | 195,475.3 | 227,713.1 | 231,006.6 |
| —Financial assets at fair value through profit or loss | 34,974.7 | 30,254.8 | 36,101.6 | 37,097.2 |
| —Financial investments at amortized cost | 67,979.6 | 86,869.6 | 111,667.9 | 109,770.4 |
| —Financial investments at fair value through other comprehensive income | 86,043.1 | 78,350.9 | 79,943.6 | 84,139.0 |
| Investment in associates | 267.7 | 430.6 | 433.0 | 448.7 |
| Property and equipment | 1,396.1 | 1,577.6 | 2,432.8 | 2,466.7 |
| Right-of-use assets | 629.9 | 613.6 | 612.2 | 595.2 |
| Goodwill | – | 181.4 | 520.5 | 520.5 |
| Deferred tax assets | 1,683.8 | 2,018.1 | 3,054.2 | 3,089.1 |
| Other assets[(2)] | 2,153.6 | 1,084.7 | 1,710.5 | 1,446.7 |
| **Total assets** | **407,904.7** | **461,208.8** | **548,402.0** | **564,558.2** |
| **LIABILITIES** | | | | |
| Borrowings from central banks | 644.5 | 2,601.2 | 30,653.4 | 29,870.6 |
| Financial assets sold under repurchase agreements and deposits and placements from banks and other financial institutions | 53,204.4 | 46,373.2 | 43,482.2 | 45,590.8 |
| Financial liabilities at fair value through profit or loss | 24.5 | 132.4 | 238.8 | 230.2 |
| Deposits from customers | 265,004.9 | 314,217.0 | 377,548.9 | 389,641.3 |
| Debt securities issued | 55,676.7 | 58,271.7 | 50,249.2 | 54,780.9 |
| Taxes payable | 536.4 | 913.8 | 822.7 | 1,060.8 |
| Lease liabilities | 500.0 | 456.4 | 450.9 | 433.1 |
| Other liabilities | 2,478.7 | 2,771.3 | 6,313.0 | 2,633.7 |
| **Total liabilities** | **378,070.1** | **425,737.0** | **509,759.1** | **524,241.4** |
| **EQUITY** | | | | |
| Share capital | 5,740.5 | 5,740.5 | 5,740.5 | 5,740.5 |
| Revaluation reserve | 573.2 | 1,229.5 | 196.3 | 100.0 |
| Surplus reserve | 6,204.0 | 6,705.0 | 7,177.6 | 7,177.6 |

| | As of December 31, | | | As of March 31, |
|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 |
| | (in millions of RMB) | | | |
| General reserve | 5,017.8 | 5,284.1 | 5,767.7 | 5,767.7 |
| Retained earnings | 12,053.1 | 14,855.3 | 17,263.6 | 18,975.5 |
| Total equity attributable to our shareholders | 29,588.6 | 33,814.4 | 36,145.7 | 37,761.3 |
| Non-controlling interests | 246.0 | 1,657.4 | 2,497.2 | 2,555.6 |
| **Total equity** | **29,834.6** | **35,471.8** | **38,642.9** | **40,316.9** |
| **Total liabilities and equity** | **407,904.7** | **461,208.8** | **548,402.0** | **564,558.2** |

*Notes:*

(1) For ease of reference, in this prospectus, unless otherwise indicated, we use the terms "loans and advances to customers", "loans to customers" and "loans" synonymously.

(2) Consisted primarily of prepayment for equity investment, long-term deferred expenses, and research and development expenditures.

**Distribution of Operating Income by Principal Business Lines**

The following table sets forth a breakdown of the principal business lines and their operating income contributions during the Track Record Period.

| | For the years ended December 31, | | | | | | For the three months ended March 31, | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2018 | | 2019 | | 2020 | | 2020 | | 2021 | |
| | Amount | % of total | Amount | % of total | Amount | % of total | Amount | % of total | Amount | % of total |
| | (in millions of RMB, except percentages) | | | | | | | | | |
| Corporate banking business | 4,046.2 | 41.4% | 4,671.8 | 39.6% | 5,501.0 | 45.7% | 1,380.0 | 43.5% | 1,560.0 | 49.4% |
| Retail banking business | 4,012.8 | 41.0% | 4,523.9 | 38.4% | 5,286.1 | 43.9% | 1,281.4 | 40.4% | 1,287.2 | 40.8% |
| Treasury business | 1,467.7 | 15.0% | 2,204.7 | 18.7% | 1,385.8 | 11.5% | 475.8 | 15.0% | 291.4 | 9.2% |
| Others[1] | 250.9 | 2.6% | 394.8 | 3.3% | (125.9) | (1.1)% | 35.9 | 1.1% | 17.4 | 0.6% |
| **Total** | **9,777.6** | **100.0%** | **11,795.2** | **100.0%** | **12,047.0** | **100.0%** | **3173.1** | **100.0%** | **3,156.0** | **100.0%** |

*Note:*

(1) Consisted of income and expenses that are not directly attributable to any specific segment.

**Distribution of Loans and Advances to Customers by Business Line**

Our loans to customers consisted of corporate loans, personal loans and discounted bills. The following table sets forth our gross loans to customers by business line as of the dates indicated.

| | As of December 31, | | | | | | As of March 31, | |
|---|---|---|---|---|---|---|---|---|
| | 2018 | | 2019 | | 2020 | | 2021 | |
| | Amount | % of total | Amount | % of total | Amount | % of total | Amount | % of total |
| | (in millions of RMB, except percentages) | | | | | | | |
| Corporate loans | 95,480.1 | 58.1% | 107,682.3 | 52.3% | 136,673.6 | 52.3% | 144,660.6 | 52.5% |
| Personal loans | 49,541.7 | 30.1% | 80,048.3 | 38.9% | 98,015.9 | 37.5% | 105,073.8 | 38.1% |
| Discounted bills | 19,331.0 | 11.8% | 18,096.2 | 8.8% | 26,761.1 | 10.2% | 26,016.2 | 9.4% |
| **Total loans and advances to customers** | **164,352.8** | **100.0%** | **205,826.8** | **100.0%** | **261,450.6** | **100.0%** | **275,750.6** | **100.0%** |

**Distribution of Corporate Loans by Industry**

Our corporate loans consisted of loans to corporate customers in a broad range of industries. The following table sets forth the distribution of our corporate loans by industry classification[1] as of the dates indicated.

| | As of December 31, | | | | | | As of March 31, | |
|---|---|---|---|---|---|---|---|---|
| | 2018 | | 2019 | | 2020 | | 2021 | |
| | Amount | % of total | Amount | % of total | Amount | % of total | Amount | % of total |
| | *(in millions of RMB, except percentages)* | | | | | | | |
| Manufacturing | 14,325.9 | 15.0% | 16,944.4 | 15.7% | 27,173.6 | 19.8% | 28,240.8 | 19.5% |
| Leasing and commercial services | 19,595.6 | 20.5% | 22,636.2 | 21.0% | 24,737.3 | 18.1% | 27,557.7 | 19.0% |
| Wholesale and retail | 20,452.8 | 21.4% | 23,342.2 | 21.7% | 24,274.5 | 17.8% | 26,192.4 | 18.1% |
| Construction | 16,908.8 | 17.7% | 17,791.3 | 16.5% | 20,860.8 | 15.3% | 22,276.2 | 15.4% |
| Real estate | 8,407.7 | 8.8% | 9,259.1 | 8.6% | 10,804.3 | 7.9% | 12,667.6 | 8.8% |
| Production and supply of power, gas and water | 4,878.8 | 5.1% | 4,501.8 | 4.2% | 5,322.4 | 3.9% | 5,915.7 | 4.1% |
| Transportation, logistics and postal services | 2,075.8 | 2.2% | 3,449.0 | 3.2% | 3,947.1 | 2.9% | 3,853.5 | 2.7% |
| Health, social security and welfare | 1,465.9 | 1.5% | 2,008.7 | 1.9% | 2,539.0 | 1.9% | 2,537.0 | 1.8% |
| Education | 994.1 | 1.0% | 1,715.8 | 1.6% | 2,212.0 | 1.6% | 2,255.9 | 1.6% |
| Water, environment and public utilities management | 2,070.3 | 2.2% | 1,804.0 | 1.7% | 2,101.5 | 1.5% | 2,331.0 | 1.6% |
| Hotels and catering industries | 920.7 | 1.0% | 1,138.4 | 1.1% | 1,382.0 | 1.0% | 1,355.2 | 0.9% |
| Information transmission, software and IT services | 924.7 | 1.0% | 757.9 | 0.7% | 823.0 | 0.6% | 1,087.4 | 0.8% |
| Finance | — | — | — | — | 7,514.0 | 5.5% | 5,603.5 | 3.9% |
| Others(1) | 2,459.0 | 2.6% | 2,333.5 | 2.1% | 2,982.1 | 2.2% | 2,786.7 | 1.8% |
| **Total corporate loans** | **95,480.1** | **100.0%** | **107,682.3** | **100.0%** | **136,673.6** | **100.0%** | **144,660.6** | **100.0%** |

*Note:*

(1) Consisted primarily of (i) agriculture, forestry, animal husbandry and fishery, (ii) resident services and other services, (iii) culture, sports and entertainment, (iv) scientific research and technical services, and geological prospecting, (v) mining, and (vi) public management and social organization.

[1] The industry classifications are in accordance with the National Economic Industry Classification system of the National Bureau of Statistics.

### Distribution of Corporate Loans by Size of Corporate Borrowers

The following table sets forth distribution of our corporate loans by size of borrowers as of the dates indicated.

| | As of December 31, | | | | | | | | | As of March 31, | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2018 | | | 2019 | | | 2020 | | | 2021 | | |
| | Amount | % of total | NPL ratio | Amount | % of total | NPL ratio | Amount | % of total | NPL ratio | Amount | % of total | NPL ratio |
| | *(in millions of RMB, except percentages)* | | | | | | | | | | | |
| SMEs[1] | 62,969.9 | 65.9% | 2.35% | 68,097.9 | 63.3% | 1.75% | 82,515.2 | 60.4% | 1.10% | 89,767.9 | 62.0% | 1.08% |
| Medium enterprises[1] | 23,281.4 | 24.4% | 1.24% | 28,277.8 | 26.3% | 1.36% | 37,349.4 | 27.3% | 1.00% | 37,696.0 | 26.1% | 0.84% |
| Large enterprises[1] | 8,392.2 | 8.8% | 0.18% | 10,605.0 | 9.8% | 0.14% | 16,156.6 | 11.8% | 0.00% | 16,597.3 | 11.5% | 0.00% |
| Others[2] | 836.6 | 0.9% | 0.00% | 701.6 | 0.6% | 0.00% | 652.4 | 0.5% | 0.00% | 599.4 | 0.4% | 0.20% |
| **Total corporate loans** | **95,480.1** | **100.0%** | **1.87%** | **107,682.3** | **100.0%** | **1.52%** | **136,673.6** | **100.0%** | **0.94%** | **144,660.6** | **100.0%** | **0.89%** |

*Notes:*

(1) The classification criteria for large enterprises, medium enterprises, SMEs are set out by the 2017 Measures for Classification.

(2) Consisted primarily of public institutions, such as hospitals and schools.

### Distribution of Personal Loans by Product Type

The table below sets forth the distribution of our personal loans by product type as of the dates indicated.

| | As of December 31, | | | | | | As of March 31, | |
|---|---|---|---|---|---|---|---|---|
| | 2018 | | 2019 | | 2020 | | 2021 | |
| | Amount | % of total | Amount | % of total | Amount | % of total | Amount | % of total |
| | *(in millions of RMB, except percentages)* | | | | | | | |
| Residential mortgage loans | 23,568.3 | 47.6% | 32,441.2 | 40.5% | 37,665.4 | 38.4% | 39,788.3 | 37.9% |
| Personal consumption loans | 5,336.2 | 10.8% | 19,089.8 | 23.9% | 26,517.0 | 27.1% | 30,080.3 | 28.6% |
| Personal business loans | 9,766.5 | 19.7% | 18,001.0 | 22.5% | 25,609.6 | 26.1% | 27,604.0 | 26.3% |
| Credit card balances | 10,870.7 | 21.9% | 10,516.3 | 13.1% | 8,223.9 | 8.4% | 7,601.2 | 7.2% |
| **Total personal loans** | **49,541.7** | **100.0%** | **80,048.3** | **100.0%** | **98,015.9** | **100.0%** | **105,073.8** | **100.0%** |

**Distribution of Financial Assets by Product Type**

Our financial assets consisted primarily of debt securities, rights to earnings on credit assets, fund investments, wealth management instruments for direct financing and certain other types of financial assets. The following table sets forth the components of our financial assets as of the dates indicated.

| | As of December 31, | | | | | | As of March 31, | |
|---|---|---|---|---|---|---|---|---|
| | 2018 | | 2019 | | 2020 | | 2021 | |
| | Amount | % of total | Amount | % of total | Amount | % of total | Amount | % of total |
| | *(in millions of RMB, except percentages)* | | | | | | | |
| Debt securities | 167,140.6 | 89.8% | 173,654.7 | 90.1% | 198,595.1 | 88.4% | 200,165.7 | 87.9% |
| Rights to earnings on credit assets | 11,566.8 | 6.2% | 7,694.2 | 4.0% | 4,783.7 | 2.1% | 4,362.2 | 1.9% |
| Fund investment | 6,423.5 | 3.4% | 10,215.3 | 5.3% | 20,496.9 | 9.1% | 22,358.5 | 9.8% |
| Wealth management instruments for direct financing | 625.2 | 0.3% | 603.9 | 0.3% | 222.0 | 0.1% | 223.4 | 0.1% |
| Others | 30.0 | 0.0% | 29.3 | 0.0% | 27.3 | 0.0% | 27.9 | 0.0% |
| **Subtotal** | **185,786.1** | **99.7%** | **192,197.4** | **99.7%** | **224,125.0** | **99.7%** | **227,137.7** | **99.7%** |
| Accrued interest | 2,713.5 | | 2,840.7 | | 3,142.4 | | 3,405.3 | |
| Unlisted equity rights | 612.0 | 0.3% | 563.2 | 0.3% | 566.7 | 0.3% | 575.2 | 0.3% |
| **Total financial assets, gross** | **189,111.6** | **100.0%** | **195,601.3** | **100.0%** | **227,834.1** | **100.0%** | **231,118.2** | **100.0%** |
| Less: Allowance for expected credit losses | (114.2) | | (126.0) | | (121.0) | | (111.6) | |
| **Total financial assets, net** | **188,997.4** | | **195,475.3** | | **227,713.1** | | **231,006.6** | |

Debt securities was the largest component of our financial assets, representing approximately 89.8%, 90.1%, 88.4% and 87.9% of our total gross financial assets as of December 31, 2018, 2019 and 2020 and for the three months ended March 31, 2021, respectively. We invest in debt securities issued by the central and local governments, financial institutions and corporate issuers in the PRC, and interbank certificates of deposits. For details, please see "Business — Treasury Business — Major Products and Services — Debt Securities Investments".

### Distribution of Loans by Types of Collateral

The following table sets forth the distribution of our loans to customers by type of collateral as of the dates indicated.

| | As of December 31, | | | | | | | | | As of March 31, | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2018 | | | 2019 | | | 2020 | | | 2021 | | |
| | Amount | % of total | Loan-to-value ratio | Amount | % of total | Loan-to-value ratio | Amount | % of total | Loan-to-value ratio | Amount | % of total | Loan-to-value ratio |
| | (RMB in millions, except for percentages) | | | | | | | | | | | |
| Pledged loans[(1)(2)] | 30,769.2 | 18.7% | 60.9% | 28,847.7 | 14.0% | 59.8% | 39,107.9 | 15.0% | 64.7% | 39,371.2 | 14.3% | 66.1% |
| Collateralized loans[(1)(3)] | 88,589.1 | 53.9% | 54.0% | 113,050.8 | 54.9% | 51.3% | 134,641.7 | 51.5% | 52.8% | 144,891.5 | 52.5% | 52.4% |
| Guaranteed loans | 31,566.8 | 19.2% | N/A | 35,717.2 | 17.4% | N/A | 54,441.7 | 20.8% | N/A | 57,357.0 | 20.8% | N/A |
| Unsecured loans | 13,427.7 | 8.2% | N/A | 28,211.1 | 13.7% | N/A | 33,259.3 | 12.7% | N/A | 34,130.9 | 12.4% | N/A |
| **Total** | **164,352.8** | **100.0%** | | **205,826.8** | **100.0%** | | **261,450.6** | **100.0%** | | **275,750.6** | **100.0%** | |

*Notes:*

(1) Represented the total amount of loans wholly or partially secured by collateral in each category. If a loan is secured by more than one form of security interest, the classification is based on the primary form of security interest.

(2) Represented security interest in intangible assets or monetary assets, such as movable assets, certificates of deposit, financial instruments, intellectual properties and interests in future cash flows, by taking possession of, or registering against, such assets.

(3) Represented security interests in tangible assets other than monetary assets, such as buildings and fixtures, land use rights, machines, equipment and vehicles, without taking possession.

### Loan Products by Remaining Maturity

The following table sets forth our loan products by remaining maturity as of the date indicated.

| | As of March 31, 2021 | | | | | |
|---|---|---|---|---|---|---|
| | Due 3 months or less | Due over 3 months up to 12 months | Due between 1 to 5 years | Due more than 5 years | Overdue[(1)] | Total |
| | (in millions of RMB) | | | | | |
| **Corporate loans** | | | | | | |
| Working capital loans | 11,572.3 | 31,696.6 | 17,015.2 | 2,053.3 | 1,120.9 | 63,458.3 |
| Fixed asset loans | 1,131.2 | 4,000.3 | 32,500.3 | 37,810.5 | 478.4 | 75,920.7 |
| Others[(2)] | 845.9 | 2,989.1 | 70.8 | 1,367.2 | 8.6 | 5,281.6 |
| **Subtotal** | **13,549.4** | **38,686.0** | **49,586.3** | **41,231.0** | **1,607.9** | **144,660.6** |
| **Personal loans** | | | | | | |
| Personal business loans | 1,765.8 | 7,164.7 | 12,060.9 | 6,082.0 | 530.6 | 27,604.0 |
| Property mortgages | 2.6 | 18.8 | 845.8 | 38,645.7 | 275.4 | 39,788.3 |
| Credit card balance[(3)] | 2,624.0 | 548.6 | 2,856.7 | 1,414.2 | 157.7 | 7,601.2 |
| Personal consumption loans | 1,112.1 | 6,786.5 | 15,103.3 | 6,673.3 | 405.1 | 30,080.3 |
| **Subtotal** | **5,504.5** | **14,518.6** | **30,866.7** | **52,815.2** | **1,368.8** | **105,073.8** |
| **Discounted bills** | | | | | | |
| Bank acceptance bill | 11,461.6 | 14,554.6 | — | — | — | 26,016.2 |
| **Subtotal** | **11,461.6** | **14,554.6** | **—** | **—** | **—** | **26,016.2** |
| **Total** | **30,515.5** | **67,759.2** | **80,453.0** | **94,046.2** | **2,976.7** | **275,750.6** |

*Notes:*

(1) Included loans on which principal and interests are overdue. For loans that were repayable in installments, if any portion of the loan was overdue, the total amount of that loan was classified as overdue.

(2) Consisted primarily of mortgage loans on operational occupancy and mechanical equipment.

(3) Included credit card loans that were repayable in installments. The maturity profile is the carrying amount as set forth by remaining contractual maturities as of March 31, 2021.

As of March 31, 2021, our corporate loans with remaining maturities of up to one year amounted to approximately RMB52,235.4 million, representing approximately 36.1% of our total corporate loans, consisting primarily of working capital loans with remaining maturities of three to 12 months. Our corporate loans with remaining maturities of more than one year amounted to approximately RMB90,817.3 million as of the same date, representing approximately 62.8% of our total corporate loans, consisting primarily of fixed asset loans with remaining maturities of more than one year. Our personal loans with remaining maturity of up to five years amounted to approximately RMB50,889.8 million as of March 31, 2021, representing approximately 48.4% of our total personal loans, consisting mainly of personal business loans and personal consumption loans with remaining maturities between one to five years while those of our personal loans with remaining maturity of more than five years amounted to approximately RMB52,815.2 million as of the same date, representing approximately 50.3% of our total personal loans, consisting primarily of residential mortgage loans.

**Distribution of Corporate Loans by Product Type**

The following table sets forth the distribution of our corporate loans by product type as of the dates indicated.

| | As of December 31, | | | | | | As of March 31, | |
|---|---|---|---|---|---|---|---|---|
| | 2018 | | 2019 | | 2020 | | 2021 | |
| | Amount | % of total | Amount | % of total | Amount | % of total | Amount | % of total |
| | *(in millions of RMB, except percentages)* | | | | | | | |
| Working capital loans | 42,826.5 | 44.9% | 46,655.2 | 43.2% | 63,073.1 | 46.1% | 63,458.3 | 43.9% |
| Fixed asset loans | 51,281.5 | 53.7% | 58,805.2 | 54.6% | 69,532.5 | 50.9% | 75,920.7 | 52.5% |
| Others[(1)] | 1,372.1 | 1.4% | 2,221.9 | 2.2% | 4,068.0 | 3.0% | 5,281.6 | 3.6% |
| **Total** | **95,480.1** | **100.0%** | **107,682.3** | **100.0%** | **136,673.6** | **100.0%** | **144,660.6** | **100.0%** |

*Note:*

(1) Consisted primarily of mortgage loans on business premises and mechanical equipment.

## CASH FLOW

The following table sets forth our cash flows for the periods indicated. For details, please see "Appendix I — Accountant's Report — I. Historical Financial Information of the Group — Consolidated Cash Flow Statements".

| | For the years ended December 31, | | | For the three months ended March 31, | |
|---|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2020 | 2021 |
| | *(in millions of RMB)* | | | | |
| Net cash generated/(used) from operating activities | 6,224.7 | (6,997.6) | 20,314.3 | (17,981.4) | (2,300.9) |
| — operating profit before changes in working capital | 1,119.1 | 2,346.2 | 3,151.2 | 828.9 | 830.2 |
| — changes in working capital | 5,819.9 | (8,325.1) | 18,233.3 | (18,746.6) | (3,107.7) |
| — income tax paid | (714.3) | (1,018.7) | (1,070.2) | (63.7) | (23.4) |
| Net cash (used)/generated in investing activities | (14,891.2) | 7,598.9 | (2,702.7) | 5,542.8 | (4,031.4) |
| Net cash generated/(used) from financing activities | 16,050.3 | (801.6) | (11,498.1) | 8,379.3 | 4,067.2 |
| Effect of foreign exchange rate changes on cash and cash equivalents | 39.1 | 21.3 | (109.1) | (11.2) | (98.5) |
| **Net increase/(decrease) in cash and cash equivalents** | **7,422.9** | **(179.0)** | **6,004.4** | **(4,070.5)** | **(2,363.6)** |

We had cash flows generated from operating activities before changes in operating assets and liabilities of approximately RMB1,119.1 million and RMB3,151.2 million for the years ended December 31, 2018 and 2020, respectively.

We had net cash generated from and used in operating activities of approximately RMB17,981.4 million and RMB2,300.9 million for the three months ended March 31, 2020 and 2021, respectively, primarily attributable to the cash outflow resulted from increase in loans and advances to customers in line with our business expansion and decrease in deposits and placements from banks and other financial institutions. We had net cash used in operating activities of approximately RMB6,997.6 million and RMB2,300.9 million for the year ended December 31, 2019 and for the three months ended March 31, 2021, respectively. As of December 31, 2019 and March 31, 2021, we recorded cash and cash equivalents of approximately RMB23,255.2 million and RMB26,896.0 million, respectively. Taking into account our cash and cash equivalents as of the dates, the profitability and operation condition of our business, we believe that the cash outflow in 2019 and the first three months of 2021 did not have an material adverse impact on our financial positions. The net cash outflow from operating activities was primarily resulted from the increases in loans granted and advances to customers, which was in line with our business expansion. To improve our cash flow, we will continue to increase our efforts to attract deposits from customers by offering diversified products to address demands of different customers so as to obtain long-term stable sources of funds, and we plan to issue financial debt securities such as green financial bonds, SME financial bonds and Sannong financial bonds. A proposal for the public issuance of eligible tier-two capital instruments of our Bank was approved at a shareholders' general meeting held on April 23, 2021. Depending on our future capital needs, our Bank plans to issue eligible tier-two capital instruments of no more than RMB4.0 billion in the domestic markets to replenish our Bank's tier-two capital. The eligible tier-two capital instruments issuance plan is subject to the approval by the relevant regulatory authorities. In addition, we intend to actively utilize central bank funds such as refinancing, rediscount, and medium-term lending facilities. On the other hand, we will closely monitor cash outflow from our loan business and optimize the asset structure. For example, we will prudently plan our investment scale and repayment schedule, and expand our treasury business in accordance with the relevant regulatory requirements to improve our liquidity and cash flow position. For details, please see "Financial Information — Cash Flows".

## SELECTED FINANCIAL RATIOS

The following table sets forth, for the periods indicated, key financial indicators.

| | For the years ended December 31, | | | For the three months ended March 31, | |
|---|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2020 | 2021 |
| **Profitability indicators** | | | | | |
| Return on average total assets(1) | 1.14% | 1.12% | 1.00% | 1.33% | 1.26% |
| Return on average equity(2) | 16.42% | 14.92% | 13.64% | 15.74% | 16.71% |
| Net interest spread(3) | 1.98% | 2.10% | 2.10% | 2.23% | 1.91% |
| Net interest margin(4) | 2.05% | 2.18% | 2.16% | 2.34% | 1.98% |
| Cost-to-income ratio(5) | 29.98% | 28.84% | 31.51% | 30.86% | 27.60% |

*Notes:*

(1) Calculated by dividing net profit for the period by average balance of total assets at the beginning and the ending of the period.

(2) Calculated by dividing net profit for the period by average balance of total shareholders' equity at the beginning and the ending of the period.

(3) Calculated as the difference between the average yield on total interest-earning assets and the average cost of total interest-bearing liabilities.

(4) Calculated by dividing net interest income by the average balance of total interest-earning assets at the beginning and the ending of the period.

(5) Calculated by dividing total operating expenses (excluding tax and surcharges) by total operating income.

Return on average total assets decreased from approximately 1.14% in 2018 to 1.12% in 2019 and further decreased to 1.00% in 2020. For the same years, our return on equity decreased from approximately 16.42% to

14.92% and further decreased to 13.64%, respectively. Such decrease reflects a faster growth of our total assets and total shareholders' equity as compared to the growth of our net profit, which was primarily due to (i) our acquisition of Zhanjiang RCB in November 2019 and Chaoyang RCB in December 2020, resulting in a significant increase in our total assets and total shareholders' equity; and (ii) relative small portion of net profit recognized in the corresponding years due to the short period of time since acquisition. For the three months ended March 31, 2020 and 2021, our return on average total assets decreased from approximately 1.33% to 1.26%, mainly due to the consolidation of Chaoyang RCB in December 2020, which has a relatively lower profitability as compared with our Group. For the same period, our return on equity increased from approximately 15.74% to 16.71%, reflecting a faster growth of our net profit as compared to the growth of our shareholders' equity, which was in turn due to (i) the increased net profit in the first three months of 2021 resulted from our business expansion and effective cost management; and (ii) the relatively lower increase in shareholders' equity because changes in fair value of financial assets at fair value through other comprehensive income decreased as the market interest rate of our debt securities increased in the first three months of 2021.

**Information on Certain Regulatory Indicators**

The following table sets forth information relating to certain regulatory indicators, calculated in accordance with the requirements of the PRC banking regulatory authorities and applicable accounting standards, as of the dates indicated.

| | As of December 31, | | | As of March 31, | Regulatory Requirement |
|---|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 | |
| **Capital adequacy indicators** | | | | | |
| Core tier-one capital adequacy ratio[(1)] | 12.08% | 12.63% | 11.54% | 11.52% | ≥ 7.5% |
| Tier-one capital adequacy ratio[(2)] | 12.09% | 12.65% | 11.57% | 11.56% | ≥ 8.5% |
| Capital adequacy ratio[(3)] | 14.84% | 15.30% | 14.00% | 13.93% | ≥10.5% |
| **Asset quality indicators** | | | | | |
| Non-performing loan ratio[(4)] | 1.27% | 1.00% | 0.82% | 0.79% | ≤ 5% |
| Allowance coverage ratio[(5)] | 345.74% | 389.57% | 375.13% | 376.90% | ≥ 150% |
| Allowance to total loan ratio[(6)] | 4.39% | 3.88% | 3.06% | 2.99% | ≥ 2.5% |
| **Other indicators** | | | | | |
| Loan to deposit ratio[(7)] | 62.85% | 66.65% | 70.36% | 71.80% | N/A |

*Notes:*

(1) Calculated by dividing core tier-one capital, net of core tier one capital deductions, by risk-weighted assets. For the components of core tier-one capital, core tier-one capital deductions and risk weighted assets, please see "Supervision and Regulation—Supervision over Capital Adequacy" and "Financial Information—Capital Resources—Capital Adequacy".

(2) Calculated by dividing tier-one capital, net of tier one capital deductions, by risk-weighted assets. For the components of tier-one capital, tier-one capital deductions and risk weighted assets, please see "Supervision and Regulation—Supervision over Capital Adequacy" and "Financial Information—Capital Resources—Capital Adequacy".

(3) Calculated by dividing total capital, net of capital deductions, by risk-weighted assets. For the components of our total capital, capital deductions and risk weighted assets, see "Supervision and Regulation—Supervision over Capital Adequacy" and "Financial Information—Capital Resources—Capital Adequacy".

(4) Calculated by dividing the amount of NPL (excluding accrued interest) by total amount of loans (excluding accrued interest). For the purpose of NPL ratio calculation, the NPL ratio of Zhanjiang RCB, our subsidiary, was calculated by the original book value of the loans as of December 31, 2019 and 2020 and March 31, 2021, respectively, and not the fair value on the combination date. For the purpose of NPL ratio calculation, the NPL ratio of Chaoyang RCB, our subsidiary, was calculated by the original book value of the loans as of December 31, 2020 and March 31, 2021 and not the fair value on the combination date.

(5) Calculated by dividing impairment allowances by total non-performing loans (excluding accrued interest). The impairment allowance does not include impairment allowances recorded under bills discounted in other comprehensive income. The allowance coverage ratio of Zhanjiang RCB, our subsidiary, was calculated by the original book value of the loans as of December 31, 2019 and 2020 and March 31, 2021, respectively and not the fair value on the combination date. The allowance coverage ratio of Chaoyang RCB, our subsidiary, was calculated by the original book value of the loans as of December 31, 2020 and March 31, 2021 and not the fair value on the combination date.

(6) Calculated by dividing impairment allowances by total loans (excluding accrued interest). The impairment allowance does not include impairment allowances recorded under bills discounted in other comprehensive income. The allowance to total loan ratio of Zhanjiang RCB, our subsidiary, was calculated by the original book value of the loans as of December 31, 2019 and 2020 and March 31, 2021, respectively and not the fair value on the combination date. The allowance to total loan ratio of Chaoyang RCB, our subsidiary, was calculated by the original book value of the loans as of December 31, 2020 and March 31, 2021 and not the fair value on the combination date.

(7) Calculated by dividing total loans to customers (excluding accrued interest) by total deposits (excluding accrued interest). The loan to deposit ratio of Zhanjiang RCB, our subsidiary, was calculated by the original book value of the loans as of December 31, 2019 and 2020 and March 31, 2021, respectively and not the fair value on the combination date. The loan to deposit ratio of Chaoyang RCB, our subsidiary, was calculated by the original book value of the loans as of December 31, 2020 and March 31, 2021 and not the fair value on the combination date. Before October 1, 2015, the loan to deposit ratio of commercial banks in the PRC shall not exceed 75%. Upon the revision of the Commercial Bank Law of the PRC, which became effective on October 1, 2015, such requirement of loan to deposit ratio had been abolished.

The required regulatory indicators and ratios may be subject to higher standards required by the relevant regulatory authorities from time to time. During the Track Record Period, the regulatory indicators listed above were not subject to such higher standards.

During the Track Record Period, we adopted a comprehensive risk management system to strengthen our risk management and internal control while expanding our business. As of December 31, 2018, 2019 and 2020 and March 31, 2021, our NPL ratio was 1.27%, 1.00%, 0.82% and 0.79%, respectively. The relatively low and continuously decreased NPL ratio of our Bank was primarily attributable to our efforts in controlling risks from the initial stage of loan review process by focusing on the primary and secondary repayment sources of customers and selecting collaterals with higher risk mitigation capabilities. In addition, we conduct annual investigation on risk loans, and formulated handling plans for risk and non-performing loans on a case-by-case basis, such as transfer NPLs to third parties in accordance with the relevant laws and regulations. The decrease in NPL principal amounts through NPL transfer were approximately RMB441.1 million, RMB211.9 million, RMB87.4 million and RMB26.1 million as of December 31, 2018, 2019 and 2020 and March 31, 2021, respectively. Assessment plans were also implemented for different subsidiaries, branches and departments to facilitate the solution of non-performing and risk loans.

## OFFERING STATISTICS

The statistics in the following table are based on the assumptions that (i) the Global Offering is completed and 1,148,091,000 H Shares are newly issued in the Global Offering, (ii) special dividend of approximately RMB861.1 million is paid, (iii) the Over-allotment Option for the Global Offering is not exercised, and (iv) 6,888,545,510 Shares are issued and outstanding following the completion of the Global Offering:

| | **Based on an Offer Price of HK$7.92** | **Based on an Offer Price of HK$8.71** |
|---|---|---|
| Market capitalization | HK$54,557.3 million | HK$59,999.2 million |
| Unaudited pro forma adjusted net tangible assets per Share (1) | RMB6.33 (HK$7.63(2)) | RMB6.44 (HK$7.76(2)) |

*Notes:*

(1) The unaudited pro forma adjusted consolidated net tangible assets per Share are arrived at after the adjustments of a special dividend of RMB0.15 per Share declared by our Bank, which was pursuant to the resolution of our Shareholders general meeting on April 25, 2019 and the resolution of our Board of Directors dated September 6, 2021. For the purpose of this unaudited pro forma information, the special dividend is regarded as part of the subject matter of the Global Offering and the amount of dividend of approximately RMB861.1 million is calculated based on the number of shares of 5,740 million shares of the Bank as at March 31, 2021. For details, please see "Appendix III - Unaudited Pro Forma Financial Information".

(2) The estimated net proceeds from the Global Offering are translated into Renminbi at the rate of RMB0.8304 to HK$1.00. No representation is made that the Hong Kong Dollar amounts have been, could have been or could be converted to Renminbi at that rate or at any other rate.

(3) No adjustment has been made to reflect any trading results or other transactions of the Group entered into subsequent to March 31, 2021. In particular, this unaudited pro forma financial information does not account for the cash dividend of approximately RMB1,492.5 million declared on April 23, 2021. Had the dividends been taken into account, the unaudited pro forma adjusted net tangible assets attributable to the shareholders of the Bank would have been RMB42,141 million and RMB42,879 million, and the unaudited pro forma adjusted net tangible assets per Share would have been RMB6.12 (HK$7.37) and RMB6.22 (HK$7.50) per Share based on the Offer Price of HK$7.92 and HK$8.71 per Offer Share, respectively.

## GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering. The Global Offering comprises:

(a) the Hong Kong Public Offering of initially 114,810,000 Offer Shares (subject to reallocation) in Hong Kong as described in "Structure of the Global Offering — The Hong Kong Public Offering"; and

(b) the International Offering of initially 1,033,281,000 Offer Shares (subject to reallocation and the Over-allotment Option) outside the United States only in reliance on Regulation S.

The Offer Shares will represent approximately 16.67% of the enlarged registered capital of our Bank immediately after the Global Offering (assuming no over-allotment option is exercised). If the Over-allotment Option is exercised in full, the Offer Shares will represent approximately 18.70% of the enlarged registered capital of our Bank immediately after the Global Offering and the exercise of the Over-allotment Option, details of which is set out in "Structure of the Global Offering".

Investors may apply for Hong Kong Offer Shares under the Hong Kong Public Offering or apply for or indicate an interest in the International Offering Shares under the International Offering, but may not do both.

## DIVIDEND AND DIVIDEND POLICY

We currently do not have a specific dividend distribution ratio. In 2018, 2019 and 2020, we declared cash dividends in respect of the previous years (i.e. for the years ended December 31, 2017, 2018 and 2019) of approximately RMB1,308.8 million, RMB1,366.2 million and RMB1,492.5 million, respectively. On April 23, 2021, our Shareholders approved and passed a resolution regarding the distribution of dividends of approximately RMB1,492.5 million in respect of the year ended December 31, 2020 at a shareholders' general meeting. As of the date of this prospectus, save for the special dividend disclosed below, there was no declared but unpaid dividends.

Pursuant to the resolution of our Shareholders passed on the general meeting held on April 25, 2019, it was proposed that a special cash dividend of RMB0.15 per Share shall be distributed to our Shareholders prior to the completion of the Global Offering and the Listing. Such special cash dividend has subsequently been confirmed to be distributed to Shareholders whose names appear on our register of members on August 31, 2021 pursuant to the resolution of our Board of Directors dated September 6, 2021. The total amount of such dividend is approximately RMB861.1 million and is expected to be paid after the entering into of the Price Determination Agreement but before the Listing Date with our internal resources from our distributable profits.

As the record date of such special dividend is prior to the Listing Date, our H Shareholders will not be entitled to such special dividend. As of the Latest Practicable Date, such special dividend has not been paid.

There is no regulatory approvals required for our Bank to conduct any cash dividend distribution. According to relevant regulatory requirements, including the Notice on Strengthening the Supervision of Profit Distribution of Rural Small- and Medium-sized Financial Institutions (Yinjian Banfa [2016] No. 461) (《中國銀監會辦公廳關於強化農村中小金融機構利潤分配監管有關事項的通知》) issued by the General Office of CBRC, our Bank should determine a reasonable distribution ratio and shall not distribute any cash dividend if we are unable to meet the relevant regulatory indicator or do not have sufficient distributable profits.

When determining whether to pay dividend and the amount of dividend paid, we take into consideration of our operating results, cash flow, financial positions, capital adequacy ratio, future business prospects, statutory and regulatory restrictions we need to comply with in paying dividend and other factors considered relevant by our Board of Directors. Dividend declaration and payment shall be proposed by our Board of Directors in accordance with our Articles of Association and relevant laws and regulations. Any dividend we paid must be approved at the general meeting of Shareholders. Dividends paid in prior periods may not be indicative of future dividend payments. We cannot guarantee when, if and in what form or size, dividends will be paid in the future. For details on our dividends, please see "Financial Information — Dividend — Dividend Policy".

**SHAREHOLDING RESTRICTION AND OUR SHAREHOLDING STRUCTURE**

Pursuant to the Interim Rules on Management of Shareholdings of Commercial Banks 《商業銀行股權管理暫行辦法》, (i) prior approval from the CBIRC shall be obtained prior to the shareholding of any investor, together with the shareholdings of its related parties and parties acting in concert, reaches or exceeds 5% of the total issued share of our Bank; and (ii) if any investor, together with its related parties and parties acting in concert, comes into holding equal to or more than 1% but less than 5% of the total issued share of our Bank, he or she shall report to the CBIRC within ten business days after acquiring such shareholdings.

As of the Latest Practicable Date, there was only one Shareholder holding more than 5% of our issued Shares, namely Canvest Investment, which held approximately 5.21% of our issued Shares. Canvest Investment is wholly-owned by Mr. Guo Huiqiang. Immediately following the completion of the Global Offering, such shareholding of Canvest Investment will represent approximately 4.34% of our then issued Shares or 5.21% of our then issued Domestic Shares, assuming the Over-allotment Option is not exercised, and approximately 4.24% of our then issued Shares or 5.21% of our then issued Domestic Shares, assuming the Over-allotment Option is exercised in full. For details, please see "Substantial Shareholders".

**FUTURE PLANS AND USE OF PROCEEDS**

Assuming an Offer Price of HK$8.32 (being the mid-point of the proposed Offer Price range of HK$7.92 to HK$8.71), after deduction of underwriting commissions and estimated expenses payable by the Group in connection with the Global Offering, we estimated that the net proceeds of the Global Offering will be approximately HK$9,295.4 million (assuming the Over-allotment Option is not exercised) or approximately HK$10,699.4 million (assuming the Over-allotment Option is fully exercised). We intend to use the net proceeds of the Global Offering for strengthening our capital base by supplementing our core tier-one capital and therefore supporting the sustainable growth of our business. For details on our proposed use of proceeds from the Global Offering, please see "Future Plans and Use of Proceeds".

## IMPACT OF COVID-19

During the initial outbreak of COVID-19, we adopted appointment-based financial service schemes and resumed normal business operations since March 2020.

In response to various Deferral Notices promulgated by the PRC government to encourage banking and financial institutions to extend credit support to enterprises and individuals affected by the epidemic and the appeal for providing support to the economy and the community during COVID-19, as of June 30, 2021, we have granted principal extension to 925 loans with an aggregate amount of approximately RMB2,441.8 million (among which 41 loans with an aggregate amount of approximately RMB133.3 million have been granted further extension) and allowed deferred interest payment for 11,214 loans with an aggregate interest amount of approximately RMB172.0 million. As of June 30, 2021, approximately 32.6% or RMB795.4 million of the extended principal has been repaid with RMB1,615.1 million outstanding but not yet due and RMB31.3 million overdue; and approximately 99.5% or RMB171.1 million of the deferred interest has been repaid with the remaining RMB0.9 million overdue.

On the other hand, benefiting from PBoC's policy in providing liquidity to promote resumption of production through relending and rediscount, our Group has applied to the PBoC for relending (i.e. loans from PBoC to our Bank) which amounted to approximately RMB4.3 billion as of March 31, 2021 and pledged local government bonds with market value of approximately RMB5.2 billion held by us to the PBoC, resulting in the realizable financial assets of our Group being reduced by approximately RMB5.2 billion.

As a result of the principal extension and pledging of local government bonds, our liquidity ratio as at March 31, 2021 has been reduced by 3.2 percentage points to approximately 74.7%, which remained above the minimum regulatory requirement of 25%. For details, please see to "Business — Impact of COVID-19 — Overview". For the risks associated with COVID-19, please see "Risk Factors — Risks Relating to Our Business — The recent outbreak of the contagious COVID-19 in the PRC and worldwide may have an adverse effect on our business, financial condition and results of operations".

Our Directors confirmed that, up to the date of this prospectus, there has been no material adverse impact on our loan portfolio and asset quality, financial results or business operations and loans recoverability as a result of the outbreak of COVID-19, taking into account of the amount involved under the Deferral Notices and its outstanding amount and overdue amount as at June 30, 2021, and there had been no event that would materially and adversely affect the information shown in the Accountant's Report as set out in Appendix I to this prospectus.

## RECENT DEVELOPMENTS

Our business has continued to experience growth since March 31, 2021.

From March 31, 2021 to the Latest Practicable Date, our Shareholders approved a proposal on the public issuance of eligible tier-two capital instruments of our Bank at a shareholders' general meeting held on April 23, 2021. Our Bank plans to issue eligible tier-two capital instruments of not more than RMB4.0 billion in the domestic markets to replenish our Bank's tier-two capital. The eligible tier-two capital instruments issuance plan is further subject to the approval by the relevant regulatory authorities.

As of June 30, 2021, our total assets have grown steadily since March 31, 2021 and the scale and structure of financial investments remained stable as compared to March 31, 2021. In addition, our deposits from customers and our Shareholder's equity have achieved steady growth since March 31, 2021. With respect to the quality of our assets, our non-performing loan ratio remained relatively stable since March 31, 2021.

The following tables set forth certain financial information as of the dates and for the periods indicated.

| | As of March 31, 2021 | As of June 30, 2021 |
|---|---|---|
| | | *(unaudited)* |
| | *(in millions of RMB, except percentages)* | |
| **Total assets** | **564,558.2** | **583,357.5** |
| Loans and advances to customers | 268,689.9 | 272,619.6 |
| Financial investment | 231,006.6 | 237,850.5 |
| — Financial assets at fair value through profit or loss | 37,097.2 | 43,820.0 |
| — Financial investments at amortized cost | 109,770.4 | 109,588.4 |
| — Financial investments at fair value through other comprehensive income | 84,139.0 | 84,442.1 |
| Cash and balances with central banks | 36,955.9 | 46,138.0 |
| Financial assets held under resale agreements and deposits and placements with banks and other financial institutions | 19,338.9 | 17,653.2 |
| **Total liabilities** | **524,241.4** | **543,016.1** |
| Deposits from customers | 389,641.3 | 407,773.0 |
| NPL ratio | 0.79% | 0.83% |
| Debt securities issued | 54,780.9 | 55,191.2 |
| Financial assets sold under repurchase agreements and deposits and placements from banks and other financial institutions | 45,590.8 | 45,981.4 |
| Borrowings from central banks | 29,870.6 | 29,477.7 |
| **Total equity** | **40,316.9** | **40,341.4** |
| Total equity attributable to Shareholders of the Bank | 37,761.3 | 37,791.5 |
| Non-controlling interests | 2,555.6 | 2,549.9 |

| | For the six months ended June 30, | |
|---|---|---|
| | 2020 | 2021 |
| | *(unaudited)* *(in millions of RMB)* | |
| **Net interest income** | **5,098.1** | **5,202.9** |
| Interest income | 9,563.7 | 10,753.4 |
| Interest expenses | (4,465.6) | (5,550.5) |
| **Net fee and commission income** | **419.9** | **340.9** |
| Fee and commission income | 463.3 | 417.5 |
| Fee and commission expenses | (43.4) | (76.6) |
| **Operating income** | **6,172.7** | **6,487.9** |
| Net trading gains | 442.6 | 576.2 |
| Net gains on financial investments | 165.9 | 344.7 |
| Other operating income | 46.2 | 23.2 |
| **Operating profit** | **3,239.1** | **3,442.8** |
| Operating expenses | (2,067.6) | (2,132.9) |
| **Expected credit losses and asset losses** | **(866.0)** | **(912.2)** |

| | For the six months ended June 30, | |
|---|---|---|
| | 2020 | 2021 |
| | *(unaudited)* *(in millions of RMB)* | |
| **Cash flows from operating activities** | **1,565.9** | **1,317.5** |
| Profit before tax | 3,257.0 | 3,470.5 |
| Adjustments: | (1,691.1) | (2,153.0) |
| Including: | | |
| Interest income from financial investments | (3,003.6) | (3,244.3) |
| Expected credit losses | 866.0 | 912.2 |
| **Net increase in operating assets** | **(13,559.6)** | **(21,493.0)** |
| **Net increase in operating liabilities** | **14,926.8** | **30,861.9** |
| Income tax paid | (711.0) | (608.9) |
| **Net cash generated from operating activities** | **2,222.2** | **10,077.5** |

As of June 30, 2021, our total assets increased by approximately 3.3% to RMB583,357.5 million from RMB564,558.2 million as of March 31, 2021, primarily due to the increase in loans and advances to our customers from approximately RMB268,689.9 million as of March 31, 2021 to RMB272,619.6 million as of June 30, 2021, which was in turn resulted from our continuous business expansion.

As of June 30, 2021, our total liabilities increased by approximately 3.6% to RMB543,016.1 million from RMB524,241.4 million as of March 31, 2021, because our deposits from customers increased by approximately 4.7% from RMB389,641.3 million as of March 31, 2021 to RMB407,773.0 million as of June 30, 2021, primarily due to our efforts to attract more corporate deposits.

For the six months ended June 30, 2021, our operating income increased to approximately RMB6,487.9 million from RMB6,172.8 million for the same period in 2020, representing a year-on-year growth of 5.1%.

As of June 30, 2021, our non-performing loan ratio remained relatively stable at approximately 0.83% as compared to 0.79% recorded as of March 31, 2021.

The financial information as of and for the six months ended June 30, 2021 as shown above was extracted from our unaudited condensed interim financial statements prepared by our Directors in accordance with IAS 34 "Interim Financial Reporting", which were reviewed by PricewaterhouseCoopers, our Reporting Accountant, in accordance with the International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity".

**LISTING EXPENSES**

We incur listing expenses in connection with the Listing, which primarily include professional fees, underwriting commission and other related listing fees. We expect to incur listing expenses of approximately RMB228.9 million (equivalent to approximately HK$275.6 million, assuming an Offer Price of HK$8.32 per H Share, being the mid-point of the indicative Offer Price range as stated in this prospectus, and assuming the Over-allotment Option is not exercised), representing approximately 2.9% of the estimated gross proceeds of the Global Offering accruing to us. We have incurred listing expenses of approximately RMB36.4 million (equivalent to approximately HK$43.8 million) up to March 31, 2021 which were included in "other assets" in the consolidated statements of financial position and are expected to be accounted for as a deduction from equity upon Listing. None of the listing expenses to be borne by us were reflected in our consolidated statements of comprehensive income during the Track Record Period. Listing expenses of approximately RMB192.5 million (equivalent to approximately HK$231.8 million) are expected to be incurred after March 31, 2021, of which approximately RMB15.7 million (equivalent to approximately HK$18.9 million) is expected to be charged to our consolidated statements of comprehensive income and approximately RMB176.8 million (equivalent to approximately HK$212.9 million) is expected to be accounted for as a deduction from equity. The listing expenses above are the latest practicable estimate for reference only, and the actual amount may differ from this estimate.

***In this prospectus, unless the context otherwise requires, the following terms shall have the meanings set out below.***

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| "2017 Measures for Classification" | the 2017 Measures for Classification of Large, Medium, SMEs for the Purpose of Statistics (《統計上大中小微型企業劃分辦法(2017)》) jointly promulgated by NBS on December 28, 2017, which was promulgated to supplement the Classification Standards of Small and Medium Enterprises (中小企業劃型標準規定) jointly promulgated by MIIT, NBS, NDRC and MOF on June 18, 2011 |
| "Added-value of financial industry" | the total value of national wealth created by the financial sector in the national economy through the provision of financial services over a certain period of time |
| "App(s)" | a software application developed specifically for use on small wireless computing devices |
| "Articles of Association" or "Articles" | the articles of association of our Bank, which was passed by our Shareholders at the Shareholders' meeting on April 25, 2019 and approved by the CBIRC Dongguan Office on June 16, 2020, which will become effective upon the Listing, as amended, supplemented or otherwise modified from time to time |
| "Asset Management Guiding Opinion" | the Guiding Opinion on Regulating Asset Management Business of Financial Institutions (《關於規範金融機構資產管理業務的指導意見》(銀發[2018]106號)) jointly issued by PBoC, CBIRC, CSRC and SAFE on April 27, 2018 |
| "ATM(s)" | automated teller machine(s) |
| "Bank" or "our Bank" | Dongguan Rural Commercial Bank Co., Ltd. (東莞農村商業銀行股份有限公司), a joint stock company established on December 22, 2009 in the PRC with limited liability, and if the context requires, includes its predecessor and its branches and sub-branches but, for the avoidance of doubt, excluding its subsidiaries |
| "Banking (Disclosure) Rules" | the Banking (Disclosure) Rules, Chapter 155M of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time |

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| "Banking Ordinance" | the Banking Ordinance, Chapter 155 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time |
| "Basel I" | the Basel Capital Accord promulgated in 1988 |
| "Basel II" | the revised Basel Capital Accord promulgated in 2004 |
| "Basel III" | the revised Basel Capital Accord promulgated in December 2010 |
| "Board of Directors" | the board of Directors of our Bank |
| "Board of Supervisors" | the board of Supervisors of our Bank |
| "building ownership certificates" | building ownership certificates in the PRC (中華人民共和國房屋所有權證) |
| "Business Day" | any day (other than a Saturday, Sunday or public holiday) on which banks in Hong Kong are generally open for normal banking business |
| "CAGR" | compound annual growth rate |
| "Canvest Investment" | Guangdong Canvest Investment Co., Ltd.* (廣東粵豐投資有限公司), a company wholly-owned by Mr. Guo Huiqiang (郭惠強先生) incorporated on November 27, 2002 in the PRC with limited liability and a 5.21% Shareholder as at the Latest Practicable Date |
| "Capital Adequacy Ratio Measures" | the Measures on the Administration of Capital Adequacy Ratios of Commercial Banks (商業銀行資本充足率管理辦法) promulgated by CBRC on February 23, 2004, effective as of March 1, 2004 and amended on July 3, 2007, which was later abolished by the Capital Administrative Measures on January 1, 2013 |
| "Capital Administrative Measures" | the Administrative Measures for the Capital of Commercial Banks (Trial) (商業銀行資本管理辦法（試行）) promulgated by CBRC on June 7, 2012 and effective on January 1, 2013 |
| "CBIRC" | the China Banking and Insurance Regulatory Commission (中國銀行保險監督管理委員會), a regulatory authority established by merging the former CBRC and former CIRC in accordance with the Notice of the State Council on the Setup of Institutions (Guo Fa |

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| | [2018] No.6) (國務院關於機構設置的通知（國發 [2018]6號）) issued by the State Council on March 24, 2018, and, if the context requires, includes its predecessors, namely CBRC and CIRC |
| "CBIRC Guangdong Office" | the China Banking and Insurance Regulatory Commission Guangdong Office (中國銀行保險監督管理委員會廣東監管局), and if the context requires, includes its predecessor, namely the China Banking Regulatory Commission Guangdong Office |
| "CBRC" | the China Banking Regulatory Commission (中國銀行業監督管理委員會), which has merged with CIRC to establish the CBIRC in accordance with the Notice of the State Council on the Setup of Institutions (Guo Fa [2018] No.6) (國務院關於機構設置的通知（國發 [2018]6號）) issued by the State Council on March 24, 2018 |
| "CCASS" | the Central Clearing and Settlement System established and operated by HKSCC |
| "CCASS Clearing Participant" | a person admitted to participate in CCASS as a direct clearing participant or a general clearing participant |
| "CCASS Custodian Participant" | a person admitted to participate in CCASS as a custodian participant |
| "CCASS Investor Participant" | a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation |
| "CCASS Participant" | a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant |
| "CCICR" | China Chengxin International Credit Rating Co., Ltd., a nationwide joint-stock non-bank financial institution engaged in credit rating, financial bond information and information service that established in October 1992 upon the approval of the PBoC |
| "Chaoyang RCB" | Guangdong Chaoyang Rural Commercial Bank Co., Ltd. (廣東潮陽農村商業銀行股份有限公司), a joint stock company incorporated on December 27, 2020 in the PRC with limited liability and a non-wholly owned subsidiary of our Bank |

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| "Chaoyang RCCU" | Shantou City Chaoyang Rural Credit Cooperative Union* (汕頭市潮陽農村信用合作聯社), the predecessor of Chaoyang RCB. For details, please see "History, Development and Corporate Structure — Material Acquisition during the Track Record Period — Establishment of Chaoyang RCB" |
| "CIRC" | the China Insurance Regulatory Commission (中國保險監督管理委員會), which has merged with CBRC to establish the CBIRC in accordance with the Notice of the State Council on the Setup of Institutions (Guo Fa [2018] No.6) (國務院關於機構設置的通知（國發[2018] 6 號）) issued by the State Council on March 24, 2018 |
| "city commercial bank(s)" | city commercial bank(s) established upon the approval of CBIRC and other regulatory authorities pursuant to the PRC Company Law and the PRC Commercial Banking Law |
| "close associate(s)" | has the meaning ascribed to it under the Listing Rules |
| "commercial banks" | all of the domestic banking institutions in the PRC, other than policy banks, which includes large commercial banks, nationwide joint-stock commercial banks, city commercial banks and urban credit cooperatives, rural financial institutions, foreign banks and other banking institutions |
| "Companies Ordinance" | the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time |
| "Companies (Winding Up and Miscellaneous Provisions) Ordinance" | the Companies (Winding Up and Miscellaneous Provisions) Ordinance, Chapter 32 of the Laws of Hong Kong |
| "connected person(s)" | has the meaning ascribed to it under the Listing Rules |
| "connected transaction(s)" | has the meaning ascribed to it under the Listing Rules |
| "core connected person(s)" | has the meaning ascribed to it under the Listing Rules |
| "Core Indicators (Trial)" | the Core Indicators for the Risk Management of Commercial Banks (Trial) (商業銀行風險監管核心指標（試行）), as promulgated by CBRC on December 31, 2005 and effective on January 1, 2006, as amended, supplemented or otherwise modified from time to time |

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| "Corporate Governance Standards" | the Corporate Governance Standards of Banking and Insurance Institutions (銀行保險機構公司治理準則), as promulgated by the CBIRC on June 2, 2021 |
| "COVID-19" | a newly identified coronavirus that causes infectious respiratory diseases |
| "CSRC" | China Securities Regulatory Commission (中國證券監督管理委員會) |
| "C&T Partners" | C&T Partners (江蘇世紀同仁律師事務所), the legal advisors of our Bank as to PRC laws |
| "December 2020 Notice" | the Notice on Continuous Implementation of Deferral of Repayment of Principal and Interest of Inclusive Loans to Micro- and Small-Sized Enterprises and Provision of Credit Loans to Micro- and Small-Sized Enterprises (《關於繼續實施普惠小微企業貸款延期還本付息政策和普惠小微企業信用貸款支持政策有關事宜的通知》)（銀發[2020]324號）jointly issued by PBoC, CBIRC, MOF, NDRC and MIIT on December 31, 2020. |
| "Deferral Notices" | collectively, the March 2020 Notice, the June 2020 Notice, the December 2020 Notice and the March 2021 Notice |
| "Director(s)" | the director(s) of our Bank |
| "Domestic Share(s)" | ordinary share(s) issued by our Bank in the PRC |
| "Domestic Shareholder(s)" | holder(s) of Domestic Share(s) |
| "Dongguan Dalang Dongying County Bank" | Dongguan Dalang Dongying County Bank Company Limited (東莞大朗東盈村鎮銀行股份有限公司), a company incorporated on June 25, 2012 in the PRC with limited liability and a non-wholly owned subsidiary of our Bank |
| "Extreme Conditions" | extreme conditions caused by a super typhoon as announced by the government of Hong Kong |
| "GDP" | gross domestic product |
| "GFA" | gross floor area |
| "Global Offering" | the Hong Kong Public Offering and the International Offering |

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|---|---|
| "Greater Bay Area" | Guangdong-Hong Kong-Macao Greater Bay Area, which includes Hong Kong, Macau Special Administrative Region and Guangzhou, Shenzhen, Zhuhai, Foshan, Huizhou, Dongguan, Zhongshan, Jiangmen and Zhaoqing in Guangdong Province |
| "Green Application Form(s)" | the application form(s) to be completed by the White Form eIPO Service Provider, Computershare Hong Kong Investor Services Limited, under the Hong Kong Public Offering |
| "Group" or "we" or "us" | our Bank and its subsidiaries |
| "H Share Registrar" | Computershare Hong Kong Investor Services Limited |
| "H Share(s)" | ordinary share(s) issued by our Bank outside the PRC |
| "H Shareholder(s)" | holder(s) of H Share(s) |
| "Hezhou Babu Dongying County Bank" | Hezhou Babu Dongying County Bank Company Limited (賀州八步東盈村鎮銀行股份有限公司), a company incorporated on August 8, 2012 in the PRC with limited liability and a non-wholly owned subsidiary of our Bank |
| "HK$" or "HKD" or "Hong Kong Dollars" | Hong Kong Dollars, the lawful currency of Hong Kong |
| "HKMA" | the Hong Kong Monetary Authority |
| "HKSCC" | the Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited |
| "HKSCC Nominees" | HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC |
| "Hong Kong" or "HK" | the Hong Kong Special Administrative Region of the People's Republic of China |
| "Hong Kong Offer Shares" | the 114,810,000 H Shares initially offered by our Bank (subject to adjustment) pursuant to the Hong Kong Public Offering |
| "Hong Kong Public Offering" | the offer of the Hong Kong Offer Shares by our Bank for subscription by the public in Hong Kong at the Offer Price and on, and subject to, the terms and conditions of this prospectus and the Green Application Form, as further described in "Structure of the Global Offering — The Hong Kong Public Offering" |

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| "Hong Kong Stock Exchange" | The Stock Exchange of Hong Kong Limited |
| "Hong Kong Underwriters" | the underwriters of the Hong Kong Public Offering listed in "Underwriting — Hong Kong Underwriters" |
| "Hong Kong Underwriting Agreement" | the Hong Kong underwriting agreement dated September 15, 2021 entered into between our Bank, the Joint Sponsors, the Joint Global Coordinators and the Hong Kong Underwriters relating to the Hong Kong Public Offering, as further described in "Underwriting — Underwriting Arrangements" |
| "Huizhou Zhongkai Dongying County Bank" | Huizhou Zhongkai Dongying County Bank Company Limited (惠州仲愷東盈村鎮銀行股份有限公司), a joint stock company incorporated on December 13, 2010 in the PRC with limited liability and a non-wholly owned subsidiary of our Bank |
| "IFRS" | International Financial Reporting Standards and International Accounting Standards ("IAS"), which include the related standards, amendments and interpretations issued by the International Accounting Standards Board ("IASB") |
| "International Offer Shares" | the 1,033,281,000 H Shares initially offered by our Bank pursuant to the International Offering together, where relevant, with any additional H Shares that may be issued or sold pursuant to any exercise of the Over-allotment Option, subject to adjustment as described in "Structure of the Global Offering" |
| "International Offering" | the conditional placing of the International Offer Shares by the International Underwriters with professional and institutional investors for cash at the Offer Price, outside the United States only in offshore transactions in accordance with Regulation S, as further described in "Structure of the Global Offering" |
| "International Underwriters" | the group of underwriters who are expected to enter into the International Underwriting Agreement to underwrite the International Offering |
| "International Underwriting Agreement" | the underwriting agreement relating to the International Offering, which is expected to be entered into among our Bank and the International Underwriters, as further described in "Underwriting" |

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| "Joint Bookrunners" | the joint bookrunners as named in the section headed "Directors, Supervisors and Parties Involved in the Global Offering" |
| "Joint Global Coordinators" | the joint global coordinators as named in the section headed "Directors, Supervisors and Parties Involved in the Global Offering" |
| "Joint Lead Managers" | the joint lead managers as named in the section headed "Directors, Supervisors and Parties Involved in the Global Offering" |
| "Joint Sponsors" | China Merchants Securities (HK) Co., Limited, CMB International Capital Limited, ABCI Capital Limited and ICBC International Capital Limited |
| "June 2020 Notice" | the Notice on the Further Implementation of Periodic Deferment of Repayment on Principal and Interest for Loans to Micro-, Small- and Medium- Sized Enterprises (《關於進一步對中小微企業貸款實施階段性延期還本付息的通知》) (銀發[2020]122號) jointly issued by CBIRC, PBoC and other PRC regulatory authorities on June 1, 2020 |
| "large commercial banks" | Industrial and Commercial Bank of China Limited, Agricultural Bank of China Limited, Bank of China Limited, China Construction Bank Corporation, Bank of Communications Co., Ltd. and Postal Savings Bank of China Co., Ltd., collectively |
| "large enterprise(s)" | enterprise(s) other than those classified as medium, small or micro enterprises under the 2017 Measures for Classification. For example, industrial enterprises with 1,000 or more employees and annual operating income of RMB0.4 billion or more shall be classified as large enterprises |
| "Latest Practicable Date" | September 7, 2021, being the latest practicable date for the purpose of ascertaining certain information contained in this prospectus prior to its publication |
| "Listing" | the listing of our H Shares on the main board of the Hong Kong Stock Exchange |
| "Listing Date" | the date, expected to be Wednesday, September 29, 2021, on which dealings in the H Shares first commence on the main board of the Hong Kong Stock Exchange |

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| "Listing Rules" | the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time |
| "LPR" | Loan Prime Rate |
| "Mandatory Provisions" | the Mandatory Provisions for Inclusion in the Articles of Association of Companies Incorporated in the PRC to be Listed Overseas (到境外上市公司章程必備條款), which were promulgated by the former Securities Commission of the State Council and the State Commission for Restructuring the Economic System on August 27, 1994, effective on the same date, as amended, supplemented or otherwise modified from time to time |
| "March 2020 Notice" | the Notice on Temporary Deferral of Repayment of Principal and Interest of Loans to Micro-, Small- and Medium-Sized Enterprises (Yin Bao Jian Fa [2020] No. 6) 《關於對中小微企業貸款實施臨時性延期還本付息的通知》(銀保監發[2020]6號) jointly issued by CBIRC, PBoC and other relevant PRC governmental authorities on March 1, 2020 |
| "March 2021 Notice" | the Notice on the Further Extension of Deferral of Repayment of Principal and Interest of Inclusive Loans to Micro- and Small-Sized Enterprises and Provision of Credit Loans (《關於進一步延長普惠小微企業貸款延期還本付息政策和信用貸款支持政策實施期限有關事宜的通知》)(銀發[2021]81號) jointly issued by PBoC, CBIRC, MOF, NDRC and MIIT on March 29, 2021 |
| "medium enterprise(s)" | enterprise(s) classified as medium enterprise(s) based on the number of its/their employees, operating income and total assets under the 2017 Measures for Classification. For example, industrial enterprises with less than 1,000 employees or annual operating income of less than RMB0.4 billion shall be classified as micro, small and medium enterprises, among which those with 300 or more employees and annual operating income of RMB20 million or more shall be classified as medium enterprises |
| "micro enterprise(s)" | enterprise(s) classified as micro enterprise(s) based on the number of its/their employees, operating income and total assets under the 2017 Measures for Classification. For example, industrial enterprises with less than 20 |

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| | employees or annual operating income of less than RMB3.0 million shall be classified as micro enterprises |
| "MIIT" | the Ministry of Industry and Information Technology (中華人民共和國工業和信息化部) |
| "MOF" | the Ministry of Finance of the PRC (中華人民共和國財政部) |
| "NAO" | the National Audit Office of the PRC (中華人民共和國審計署) |
| "nationwide joint-stock commercial banks" | China CITIC Bank Corporation Limited, China Everbright Bank Co., Ltd., Huaxia Bank Co., Limited, China Guangfa Bank Co., Ltd., Ping An Bank Co., Ltd., China Merchants Bank Co., Ltd., Shanghai Pudong Development Bank Co., Ltd., Industrial Bank Co., Ltd., China Minsheng Bank Corp., Ltd., Evergrowing Bank Co., Ltd., Zheshang Bank Co., Ltd. and China Bohai Bank Co., Ltd., collectively |
| "NBS" | the National Bureau of Statistics of the PRC (中華人民共和國國家統計局) |
| "NDRC" | the National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會) |
| "non-performing loan(s)" or "NPL(s)" | loans classified as substandard, doubtful and loss under our five-level loan classification system, with reference to the Guidelines of Risk-based Classification of Loans issued by CBRC in 2007 |
| "non-performing loan ratio" or "NPL ratio" | the percentage ratio calculated by dividing non-performing loans by total loans |
| "Offer Price" | the final price per Offer Share in Hong Kong Dollars (exclusive of brokerage fee of 1%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005%) at which the H Shares are to be subscribed for and issued pursuant to the Global Offering. For details, please see "Structure of the Global Offering" |
| "Offer Shares" | the Hong Kong Offer Shares and the International Offer Shares together, where relevant, any additional H Shares to be issued pursuant to the exercise of the Over-allotment Option |

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| "Over-allotment Option" | the option to be granted by our Bank to the International Underwriters exercisable by the Joint Global Coordinators on behalf of the International Underwriters pursuant to which our Bank may be required to allot and issue up to an aggregate of 172,213,000 additional H Shares (representing approximately 15% of the Offer Shares initially offered), at the Offer Price, solely to cover over-allocations in the International Offering, if any, details of which are described in "Underwriting — The International Offering" |
| "PBoC" | The People's Bank of China (中國人民銀行), the central bank of the PRC |
| "PRC" or "China" | the People's Republic of China, and for the purpose of this prospectus only, except where the context requires, excluding Hong Kong, Macau Special Administrative Region and Taiwan |
| "PRC Banking Supervision and Regulatory Law" | the Banking Supervision and Regulatory Law of the People's Republic of China (中華人民共和國銀行業監督管理法), which was promulgated by the 6th session of the Standing Committee of the 10th National People's Congress on December 27, 2003 and became effective on February 1, 2004, as amended, supplemented or otherwise modified from time to time |
| "PRC Commercial Banking Law" | the Commercial Banking Law of the PRC (中華人民共和國商業銀行法), which was promulgated by the 13th session of the Standing Committee of the 8th National People's Congress on May 10, 1995 and became effective on July 1, 1995, as amended, supplemented or otherwise modified from time to time |
| "PRC Company Law" | the Company Law of the PRC (中華人民共和國公司法), which was promulgated by the 5th session of the Standing Committee of the 8th National People's Congress on December 29, 1993 and became effective on July 1, 1994, as amended in 2018, supplemented or otherwise modified from time to time |
| "PRC GAAP" | the PRC Accounting Standards and Accounting Regulations for Business Enterprises (企業會計準則) promulgated by the MOF on February 15, 2006 and its supplementary regulations, as amended, supplemented or otherwise modified from time to time |

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| "PRC Legal Advisor" | C&T Partners, our legal advisors on PRC laws |
| "PRC PBoC Law" | the Law of the People's Bank of China of the PRC (中華人民共和國中國人民銀行法), which was promulgated by the 3rd session of the 8th National People's Congress on March 18, 1995 and became effective on the same date, as amended, supplemented or otherwise modified from time to time |
| "Prefecture-level city" | for the purpose of this prospectus, unless otherwise specified, the prefecture-level city does not include provincial capitals, municipalities and cities proposed to be upgraded to municipalities |
| "Price Determination Date" | the date, expected to be on or around Wednesday, September 22, 2021, but in any event no later than Friday, September 24, 2021, on which the Offer Price is fixed for the purposes of the Global Offering |
| "Price Determination Agreement" | the agreement expected to be entered into between the Joint Global Coordinators (on behalf of the Underwriters) and us on the Price Determination Date to fix the Offer Price |
| "R&D" | research and development |
| "Regulation S" | Regulation S under the U.S. Securities Act |
| "Related Party" or "Related Parties" | has the meaning ascribed to it under the Administrative Measures for the Related Party Transactions between Commercial Banks and their Insiders or Shareholders (商業銀行與內部人和股東關聯交易管理辦法) promulgated by the CBRC, the PRC GAAP, and/or IFRS |
| "Related Party Transaction(s)" | has the meaning ascribed to it under the Administrative Measures for the Related Party Transactions between Commercial Banks and their Insiders or Shareholders promulgated by the CBRC, the PRC GAAP, and/or IFRS |
| "RMB" or "Renminbi" | Renminbi, the lawful currency of the PRC |
| "SAFE" | the State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局) |

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| "SAIC" | the State Administration for Industry and Commerce of the PRC (中華人民共和國國家工商行政管理總局), being the predecessor of the SAMR. After the reorganization, it is now unified as the SAMR, which includes related functions of industry and commerce |
| "SAMR" | the State Administration of Market Regulation of the PRC (中華人民共和國國家市場監督管理總局) |
| "Sannong" | a short-hand reference to the Chinese pronunciation of the phrase "agriculture, rural areas and farmers (三農)" For the purposes of this prospectus, Sannong means government policies aiming at agriculture modernization, rural development and the improvement of living conditions of farmers |
| "SASAC" | the State-owned Assets Supervision and Administration Commission of the State Council (中華人民共和國國務院國有資產監督管理委員會) |
| "SAT" | the State Administration of Taxation of the PRC (中華人民共和國國家稅務總局) |
| "SFC" | the Securities and Futures Commission of Hong Kong |
| "SFO" | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time |
| "Share(s)" | ordinary share(s) in our share capital, including Domestic Share(s) and H Share(s) |
| "Shareholder(s)" | holder(s) of Share(s), including Domestic Shareholder(s) and H Shareholder(s) |
| "SHIBOR" | the Shanghai Interbank Offered Rate |
| "small enterprise(s)" | enterprise(s) classified as small enterprise(s) based on the number of its/their employees, operating income and total assets under the 2017 Measures for Classification. For example, industrial enterprises with less than 300 employees or operating income of less than RMB20 million shall be classified as small or micro enterprises, among which those with 20 or more employees and operating income of RMB3 million or more shall be classified as small enterprises |

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| "SME(s)" | collective term for small enterprise(s) and micro enterprise(s) defined in the 2017 Measures for Classification |
| "Special Regulations" | the Special Regulations of the State Council on the Overseas Offering and the Listing of Shares by Joint Stock Limited Companies (國務院關於股份有限公司境外募集股份及上市的特別規定), which was promulgated by the State Council on August 4, 1994, as amended, supplemented or otherwise modified from time to time |
| "sq. m" | square meter |
| "Stabilizing Manager" | ABCI Securities Company Limited |
| "State Council" | the State Council of the PRC (中華人民共和國國務院) |
| "Supervisor(s)" | the supervisor(s) of our Bank |
| "Takeovers Code" | The Codes on Takeovers and Mergers and Share Buy-backs issued by the SFC |
| "Track Record Period" | the three years ended December 31, 2018, 2019 and 2020 and the three months ended March 31, 2021 |
| "Underwriters" | the Hong Kong Underwriters and the International Underwriters |
| "Underwriting Agreements" | the Hong Kong Underwriting Agreement and the International Underwriting Agreement |
| "US$", "USD" or "U.S. dollars" | United States dollars, the lawful currency of the United States of America |
| "U.S. Securities Act" | the United States Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder |
| "Village Group(s)" | a collective reference of share cooperative, economic cooperative, economic union, joint stock economic union, professional cooperative, village committee and resident committee |
| "White Form eIPO" | the application for Hong Kong Offer Shares to be issued in the applicant's own name by submitting applications online through the designated website of White Form eIPO Service Provider at **www.eipo.com.hk** |

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| "White Form eIPO Service Provider" | Computershare Hong Kong Investor Services Limited |
| "Yunfu Xinxing Dongying County Bank" | Yunfu Xinxing Dongying County Bank Company Limited (雲浮新興東盈村鎮銀行股份有限公司), a joint stock company incorporated on December 23, 2011 in the PRC with limited liability and a non-wholly owned subsidiary of our Bank |
| "Zhanjiang RCB" | Zhanjiang Rural Commercial Bank Co., Ltd. (湛江農村商業銀行股份有限公司), a joint stock company incorporated on October 26, 2019 in the PRC with limited liability and a non-wholly owned subsidiary of our Bank |

*Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.*

*Unless the context otherwise requires, the terms including "associate(s)","close associate(s)" and "substantial shareholder(s)" shall have the meanings ascribed to them under the Listing Rules.*

*For the ease of reference, in this prospectus, unless otherwise indicated, we use the terms "loans and advances to customers", "loans" and "loans to customers" synonymously.*

* The English names of the Chinese nationals, companies, entities, departments, facilities, certificates, titles and the like are translation of their Chinese names and are included in this prospectus for identification purpose only and should not be regarded as their official English translation. In the event of any inconsistency, the Chinese name prevails.

This prospectus contains certain forward-looking statements and information relating to us that are based on the beliefs of, assumptions made by and information currently available to our management. When used in this prospectus, the words "aim", "anticipate", "believe", "could", "predict", "potential", "continue", "expect", "going forward", "intend", "may", "ought to", "plan", "project", "seek", "should", "will", "would" and the negative forms of these words and other similar expressions, as they relate to us or our management, are intended to identify forward-looking statements. Such statements reflect the current views of our management with respect to future events, operations, liquidity and capital resources, some of which may not materialize or may change. These statements are subject to certain risks, uncertainties and assumptions, including the other risk factors as described in this prospectus. You are strongly cautioned that reliance on any forward-looking statements involves known and unknown risks and uncertainties. The risks and uncertainties facing us which could affect the accuracy of forward-looking statements include, but are not limited to, the following:

- overall political and economic conditions;
- changes or fluctuations in interest rates, foreign exchange rates, equity pricing or other rates or prices, including changes or fluctuations in industries and markets in China and in which our Bank operates;
- overall economic, market and business conditions of Dongguan or China and any related changes;
- changes in the regulatory environment and overall prospect of industries and markets in which our Bank operates;
- future development, trends and environment of industries and markets in which our Bank operates;
- products, actions and development of our competitors;
- our operation and business prospects (including our existing and new product development plans);
- our Bank's business development strategies and plans to achieve these strategies;
- our Bank's existing risk management system and our ability to improve relevant systems;
- our Bank's dividend policy;
- our Bank's financial condition, operating results and performance;
- our Bank's business volume, business nature, potential and future development; and
- development of the capital market.

Subject to the requirements of applicable laws, rules and regulations, we do not intend to update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus might not occur in the way we expect, or at all. Accordingly, you should not place undue reliance on any forward-looking information. The forward-looking statements in this prospectus are qualified by reference to the cautionary statements set out in this section.

***You should carefully consider all of the information in this prospectus, including the risks and uncertainties described below, before making an investment in our H Shares. Our business, financial condition and results of operations could be materially and adversely affected by any of these risks. The trading price of our H Shares could significantly decrease due to any of these risks, and you may lose part or even all of your investment. You should also pay particular attention to the fact that we are a PRC company and are governed by a legal and regulatory system which in some respects may differ from those prevailing in other countries. For more information concerning the laws and regulatory systems of the PRC and certain related matters discussed below, please see "Supervision and Regulation", Appendix IV — "Summary of Principal Legal and Regulatory Provisions" and Appendix V — "Summary of Articles of Association".***

## RISKS RELATING TO OUR BUSINESS

**We generated a substantial portion of our revenue in Dongguan, where our business and operations are primarily concentrated. As such, we face uncertainties associated with national and local government policies and measures which are adopted to promote local economic development.**

Our business and operations are primarily concentrated in Dongguan. As of December 31, 2018, 2019 and 2020 and March 31, 2021, 94.7%, 82.1%, 81.9% and 80.0% of our loans, and 98.8%, 99.1%, 84.9% and 84.6% of our deposits was originated in Dongguan, respectively. For details, please see "Assets and Liabilities — Assets — Loans and Advances to Customers — Distribution of Loans to Customers by Geographical Region" and "Assets and Liabilities — Liabilities and Sources of Funds — Deposits from Customers — Distribution of Deposits by Geographical Region". In addition, 501 out of the 505 outlets of our Bank were located in Dongguan as of the Latest Practicable Date. While our business originated outside of Dongguan has been gradually increasing, most of the business and operations of our Bank will remain in Dongguan and Guangdong Province for the foreseeable future. Therefore, our continued growth depends to a large extent on the economy of Dongguan and Guangdong Province. We are exposed to risks arising from concentration of credit in Dongguan and Guangdong Province in terms of distribution of customers and geographical coverage. Any adverse change in the economic development of or any significant natural disaster or catastrophic event occurring in Dongguan or Guangdong Province may materially and adversely affect our business, financial condition or results of operations.

We have no control over whether the PRC government will maintain its favorable policies in promoting the development of Guangdong Province and Dongguan. For instance, in February 2019, the State Council issued the *Outline of Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area* (《粵港澳大灣區發展規劃綱要》), which is expected to be beneficial to the economic development of Dongguan. Any discontinuation or unfavorable change in such policies may adversely affect our business, financial condition or results of operations.

Moreover, our competitiveness for customers outside Dongguan and customers that are national-level state-owned enterprises is likewise limited by the relatively few number of branches outside Dongguan.

**Our financial condition and results of operations depend significantly on our ability to continue to maintain and improve the quality of our loan portfolio. Also, our allowance for expected credit losses on loans may not be sufficient to cover the actual losses on our loan portfolio in the future. Significant deterioration of our loan portfolio quality and increases in our allowance for expected credit losses on loans could have a material adverse effect on our financial position and results of operations.**

During the Track Record Period, we generated a significant portion of our profit from interest income of loans to customers. Interest income from loans to customers was RMB8,598.4 million, RMB10,149.5 million, RMB12,728.3 million, RMB3,028.5 million and RMB3,510.9 million for the years ended December 31, 2018, 2019 and 2020 and for the three months ended March 31, 2020 and 2021, respectively, representing 53.4%, 58.5%, 65.2%, 63.7% and 66.2% of our interest income in the same periods. In addition, loans to customers constitute a significant portion of our assets. Our net balances of loans and advances to customers were RMB157,445.7 million, RMB198,970.6 million, RMB254,641.8 million and RMB268,689.9 million as of December 31, 2018, 2019 and 2020 and March 31, 2021, respectively, representing 38.6%, 43.1%, 46.4% and 47.6% of our total assets as of the same dates. As such, if the quality of our loan portfolio deteriorates and results in the increase in provision for expected credit losses due to impairment increase, our financial condition and results of operations could be materially and adversely affected. As of December 31, 2018, 2019 and 2020 and March 31, 2021, our NPL ratio was 1.27%, 1.00%, 0.82% and 0.79%, respectively.

The quality of our loan portfolio may be affected by a variety of factors beyond our control, including the fluctuation in the global economy, a general slowdown of the economy of the PRC, Guangdong Province or Dongguan, negative developments in a particular market or industry, economical policies imposed by the PRC government on certain industries, mass fluctuation in capital markets and outbreaks of natural disasters in the PRC and other regions. Any of such factors could lead to the deterioration of the financial condition, business operations or liquidity of our customers, counterparties or our ultimate financing parties, or our ability to realize the value of our collateral or guarantees securing the assets. In addition, a significant increase in NPL could lead to a decrease in our loan interest income and increases in provision for impairment loss and loan write-offs. For details, please see "— The recent outbreak of the contagious COVID-19 in the PRC and worldwide may have an adverse effect on our business, financial condition and results of operations". Our allowance for impairment losses on loans and advances to customers was RMB7,211.7 million, RMB7,294.5 million, RMB7,340.8 million and RMB7,652.6 million as of December 31, 2018, 2019 and 2020 and March 31, 2021, respectively, and our allowance coverage ratio was 345.74%, 389.57%, 375.13% and 376.90% as of the same dates and our allowance to total loan ratio for our customer loans was 4.39%, 3.88%, 3.06% and 2.99%, respectively, as of the same dates. The amount of allowance for expected credit losses is based on our assessment of various factors affecting the quality of our loan portfolio under the applicable accounting principles. The factors we take into consideration include our borrowers' operational and financial condition, repayment ability and repayment intention, the realizable value of any collateral and the ability of the guarantors of our customers to fulfil their obligations, as well as China's economic, legal and regulatory environment. Many of these factors are beyond our control, and therefore our assessment and expectations on these factors may differ from their future developments.

In addition, our allowance for expected credit losses may increase as a result of changes in future regulatory and accounting policies, deviations in loan classification, or adoption of a more conservative provisioning practice. In particular, according to the classification of financial assets under IFRS 9, we are required to consider the business model and the contractual cash flow characteristics of financial assets to determine classification and subsequent measurement. Further, for financial assets that will be classified as "amortized cost" or "fair value through other comprehensive income" under IFRS 9, we are required to apply an expected credit losses model under IFRS 9 which uses more forward looking information instead of an objective evidence of impairment as a precondition for recognizing credit losses. For details, please see "— Risks Relating to Our Business — Changes in accounting standards or policies, including, among other things, adoption of expected credit loss model under IFRS 9, may require us to change our provisioning practice for impairment on financial assets". Any of the foregoing could reduce our profit and in turn have a material adverse effect on our financial position and results of operations.

**We mainly rely on customer deposits to fund our business, and the decrease of such deposits may reduce our funding sources and our ability to extend new loans and meet the required liquidity.**

As a commercial bank, customer deposits are our primary funding source. We rely on the growth in customer deposits to expand our loan business and meet other liquidity needs. Decreases in customer deposits will reduce our funding source, which, in turn, will reduce our ability to extend new loans while meeting liquidity requirements. In recent years, our customer deposits have continued to grow. Our total customer deposits amounted to RMB265,004.9 million, RMB314,217.0 million, RMB377,548.9 million and RMB389,641.3 million as of December 31, 2018, 2019 and 2020 and March 31, 2021, respectively. However, there are various factors affecting the growth in our deposits, some of which are beyond our control, such as economic and political conditions, the availability of alternative investment products and changes in customers' preference for savings, etc. As a result, there can be no assurance that we will be able to maintain the growth in our customer deposits at a pace that is sufficient to support our expanding business. In particular, we may not be able to attract or retain adequate corporate deposits under a tightened credit environment, where higher financing costs and difficulty in raising capital may result in increased corporate deposit withdrawals and corporations may be less willing or able to place deposits. In such cases, our liquidity, results of operations and financial conditions may be adversely affected.

In addition, the maturity dates of our liabilities did not match those of our assets. As of March 31, 2021, 79.0% of our total customer deposits was demand deposits or time deposits due within one year. As of the same date, 36.7% of our gross loans to customers amount (exclusive of interest accrued) was due within one year. Based on our experience, a major portion of our short-term customer deposits are rolled over upon maturity, and these deposits represent a relatively stable source of funding. However, due to the increased availability of wealth management products and other investment products on the PRC financial markets, as well as the financial disintermediation in recent years, certain customers may withdraw their deposits and invest in such alternative products.

Other factors which are beyond our control, including but not limited to increases in benchmark interest rates, may also affect our customer deposits and increase our funding cost. For details, please see "— Further liberalization of interest rates, PBoC's adjustments to the benchmark interest rates, the ongoing reform of the LPR mechanism, the deposit insurance program and other regulatory changes in the PRC banking industry may materially and adversely affect our financial condition and results of operations" and "— Change in the PRC interbank market liquidity, volatility in interest rates and the financial condition of other banks and other financial institutions could significantly increase our borrowing costs and materially and adversely affect our liquidity and financial condition". If we are unable to maintain the growth rate of our customer deposits, or a substantial portion of our customers withdraw their demand deposits or do not roll over their time deposits upon maturity, our ability to meet capital and other liquidity requirements may be materially and adversely affected and, as a result, we may need to seek funding from alternative sources, which may not be available on reasonable and fair terms. As a result, our business, financial condition and results of operations may be materially and adversely affected.

**If we fail to properly regulate the rate at which we expand our business, our liquidity position and ability to meet capital liquidity requirements may be materially and adversely affected.**

Our total loan and advances to customers have experienced significant growth during the Track Record Period. Our net balances of loan and advances to customers were RMB157,445.7 million, RMB198,970.6 million, RMB254,641.8 million and RMB268,689.9 million as of December 31, 2018, 2019 and 2020 and March 31, 2021, respectively, representing 38.6%, 43.1%, 46.4% and 47.6% of our total assets as of the same date, respectively. During the Track Record Period, we also granted more medium-to-long term loan and advances to our customers. As of March 31, 2021, 63.3% of our loans and advances to customers, totaling RMB174,499.2 million, had remaining maturities of more than one year.

As we continue to develop and expand our business, together with the increasing need for liquidity from our customers in the face of the economic difficulties resulting from the outbreak of COVID-19, we may grant more loans with longer maturities. If we fail to properly regulate the rate at which we extend loan and advances to our customer, such increase in the amount of loan and advances with possible longer maturities may put pressure on our liquidity position. We recorded net decrease in cash and cash equivalents in the amount of RMB179.0 million, RMB4,070.5 million and RMB2,363.6 million for the year ended December 31, 2019 and for the three months ended March 31, 2020 and 2021, respectively. We recorded a net increase in cash and cash equivalents in the amount of RMB6,004.4 million for the year ended December 31, 2020. Such increases in loan and advances to our customers may also cause difficulties for us to meet the capital liquidity requirements set by relevant authorities and increase our overall liquidity risks. Furthermore, the emergence of negative public opinion towards us in the market can adversely affect our liquidity position due to bank run that caused by the panic and fear of our customers. Our capital liquidity can also be negatively impacted by the decline of high-quality liquid assets, the conversion of regular loans to non-performing loans which is due within one month, and the mass early withdrawal of term deposits. For details on the capital liquidity requirements, please see "Supervision and Regulation — Other Operational and Risk Management Ratios".

**We face concentration risks from our credit exposure to certain industries and borrowers, and our investments in rights to earnings on credit assets and fund investments.**

As of December 31, 2018, 2019 and 2020 and March 31, 2021, our corporate loans represented 58.1%, 52.3%, 52.3% and 52.5%, respectively, of our total loans and advances to customers (exclusive of accrued interest). As of December 31, 2018, 2019 and 2020 and March 31, 2021, our corporate loans to enterprises in the top five industries, namely, manufacturing industry, leasing and business service industry, wholesale and retail industry, construction industry and real estate industry, accounted for approximately 83.4%, 83.5%, 78.9% and 80.8% of our total corporate loan amount. As of the same date, the NPL to these industries accounted for 74.8%, 58.6%, 69.5% and 71.0% of total NPL of our corporate loans, respectively. For details, please see "Assets and Liabilities — Assets — Asset Quality of Our Loan Portfolio — Distribution of Non-Performing Corporate Loans by Industry." A prolonged downturn in any of these industries could undermine the quality of the existing loans and our ability to extend new loans. For example, the manufacturing industry weights a significant portion of the Dongguan's economy. If the trade war between China and U.S. continues to heat up or labor costs rise sharply, it may lead to the decline of Dongguan's manufacturing industry, and some enterprises currently in Dongguan may move to other regions, which may lead to a decrease in loans amount and asset portfolio quality of our Bank and therefore could materially and adversely affect our business, financial condition or results of operations.

As of March 31, 2021, loans to our ten largest single borrowers totaled RMB12,212.8 million, representing 26.5% of our regulatory capital and were all classified as normal. As of the same date, our loans to our ten largest group customers totaled RMB27,273.9 million, representing 59.2% of our regulatory capital and were all classified as normal. For details, please see "Assets and Liabilities — Assets — Loans and Advances to Customers — Borrower Concentration". If these loans deteriorate in quality or become non-performing, our asset quality could deteriorate significantly, and our financial condition and results of operations could be materially and adversely affected.

Furthermore, we may face concentration risk from our investments in rights to earnings on credit assets and fund investments. As of December 31, 2018, 2019 and 2020 and March 31, 2021, the five largest rights to earnings on credit assets accounted for 59.7%, 66.2%, 78.1% and 85.0% of our total investment in rights to earnings on credit assets, respectively. As of the same date, the five largest managers of the funds invested by us amounted to 100.0%, 73.3%, 53.6% and 53.0% of our total investment in fund investments. For details, please see "Assets and Liabilities — Assets — Financial Assets — Investment Concentration". Any deterioration in the business or financial condition of any of the ultimate borrowers could undermine the quality of our investment, and our financial condition and results of operations could be materially and adversely affected.

**The recent outbreak of the contagious COVID-19 in the PRC and worldwide may have an adverse effect on our business, financial condition and results of operations.**

The recent outbreak of COVID-19 has adversely affected the general economy of the PRC and the world and our normal business activities. The PRC and many other regions around the world have implemented measures such as mandatory quarantine, travel restrictions and closure of borders in an effort to mitigate the impact of the epidemic. Economic activities in major regions where our business operates have decreased significantly. Such measures directly caused dynamic adjustments to the business hours and operation modes of our outlets. For example, We strictly abide by the PRC government's classification of COVID-19 pandemic in local situations and implemented prevention and control measures pursuant to different zoning and pandemic classifications. During the strict epidemic prevention and control period, customers can make appointments in advance and visit the designated branches at the specified time to attain financial services subject to our satisfaction of the needs and health condition of customers. As of March 2020, we have fully resumed to normal business operations. Additionally, we also promote the use of digitalized financial service, thus to encourage our customers to attain and conduct their business transactions through online channels. Please see "Summary — Recent Developments" for more details regarding the policies and measures that we implemented to prevent and contain the COVID-19 pandemic. In addition, such measures may also adversely affect the financial conditions and liquidity of our customers, especially for loans to SMEs that account for approximately 62.0% of our corporate loans as of March 31, 2021. As a result, our loan portfolio and asset quality may be adversely affected.

To mitigate the economic impact of the outbreak of COVID-19, the central and local governments of the PRC have issued a series of supporting policies to alleviate the situation, including encouraging banks and financial institutions to strengthen their credit support for affected enterprises and individuals. We have also launched a series of corresponding measures accordingly. On January 31, 2020, PBoC, MOF, CBIRC, CSRC and SAFE jointly issued the "Notice on Further Strengthening Financial Supports to Prevent and Control Novel Coronavirus Infection Pneumonia Outbreak (《關於進一步強化金融支持防控新型冠狀病毒感染肺炎疫情的通知》)" to require financial supports on prevention and control works. On February 15, 2020, CBIRC announced that it may raise regulatory tolerance of banks' non-performing loans to businesses facing liquidity difficulties due to COVID-19. On February 6, 2020, the General Office of Dongguan COVID-19 Pandemic Prevention and Control Command Centre (東莞市新冠肺炎疫情防控指揮部辦公室) promulgated "The Notice of the Enforcement of Responsibilities Regarding the Resumption of Work and Production of Enterprises and Strengthening the Pandemic Prevention and Control" ("《關於落實主體責任做好企業復工復產加強疫情防控的通知》"), which supports and facilitates the resumption of work and production of enterprises under the condition that the prevention and control measures are well-implemented. The implementation of these measures may adversely affect the maturity profile of our loan portfolio, asset quality and liquidity position. In June 2020, PRC Government called on banks and other financial institutions to surrender part of their profits through offering loans with lower interest rates, reducing fees, deferring loan repayments and granting unsecured loans to small businesses, which could adversely affect the business, financial condition and results of operations of PRC banking institutions, including us. We cannot predict whether and how such measures and instructions will be modified. In addition, our efforts to comply with such measures and instructions will affect our business decisions and the relationship between the customers and us and we cannot predict what effects and to what extent such changes may affect our business. For more details, please see "— We are exposed to risks arising from loans granted to SMEs".

In light of the COVID-19 situation, we implemented measures to defer the repayment on principal and interest for loans, which lowered our cash inflow from loan repayment. In response to the Deferral Notices, as of June 30, 2021, our Group has implemented deferral of repayment arrangements for its loans with principal amount of RMB2,441.8 million and interests of RMB172.0 million. Additionally, our application of relending of loans from PBoC requires the pledging of high-quality liquid assets, which reduce our realizable financial assets as a result. As of March 31, 2021, our liquidity ratio was 74.7%, which was significantly higher than 25% as required by the regulatory authority and our short-term capital liquidity was relatively sufficient.

We will continue to monitor and adjust our assessment of the development of COVID-19. If COVID-19 adversely affects the macroeconomics of the PRC and the world and our normal business activities continuously or even more seriously, it may have a material and adverse impact on the business operation, financial condition and results of operations of ourselves and our customers.

**We are exposed to risks arising from loans granted to SMEs.**

We are exposed to credit risks arising from loans granted to SMEs. As of December 31, 2018, 2019 and 2020 and March 31, 2021, our corporate loans to SMEs represented approximately 65.9%, 63.3%, 60.4% and 62.0% of our total corporate loans as of the same dates, respectively. In particular, as of December 31, 2018, 2019 and 2020 and March 31, 2021, our NPL to SMEs was approximately RMB1,479.8 million, RMB1,191.7 million, RMB907.7 million and RMB935.1 million, representing approximately 82.9%, 72.8%, 70.7% and 74.5% of our total NPL of corporate loans of the same dates, respectively. As of December 31, 2018, 2019 and 2020 and March 31, 2021, our NPL ratio of loans to SME was approximately 2.35%, 1.75%, 1.10% and 1.08%, respectively, higher than our NPL ratio of total loans as of the same dates, which was approximately

1.27%, 1.00%, 0.82% and 0.79%, respectively. Compared with large enterprises, SMEs are generally more vulnerable to macroeconomic fluctuations due to their limitation of financial, management or other resources necessary to withstand the adverse effects brought by economic slowdown or changes in the regulatory environment. For instance, the outbreak of COVID-19 may result in a fluctuation in macroeconomic and has an adverse impact on the repayment abilities of SMEs. For details, please see "— The recent outbreak of the contagious COVID-19 in the PRC and worldwide may have an adverse effect on our business, financial condition and results of operations". In addition, we may not be able to obtain all the information on SMEs which is necessary for us to assess their credit risk. Our NPL may increase significantly as a result of the slowdown in the PRC's economic growth or unfavorable changes in the business and regulatory environment on our SME customers, which may materially and adversely affect our business, financial condition or results of operations.

**We are exposed to risks associated with any significant or protracted downturn in, or change in government policies adversely affecting, the real estate market in the PRC.**

We are exposed to risks associated with the real estate sector in China, in particular, from corporate loans extended to the real estate industry, residential mortgage loans and other loans secured by real estate. As of December 31, 2018, 2019 and 2020 and March 31, 2021, our corporate loans to the real estate industry accounted for approximately 8.8%, 8.6%, 7.9% and 8.8%, respectively, of our total corporate loans. We recorded NPLs of nil, nil, RMB4.1 million and RMB4.3 million as of December 31, 2018, 2019, 2020 and March 31, 2021, respectively, for our corporate loans to the real estate industry, representing 0.00%, 0.00%, 0.04% and 0.03% of the amount of our total corporate loans to real estate industry as of the same dates, respectively. For details, please see "Assets and Liabilities — Assets — Distribution of Non-Performing Corporate Loans by Industry". As of December 31, 2018, 2019 and 2020 and March 31, 2021, our residential mortgage loans amounted to RMB23,568.3 million, RMB32,441.2 million, RMB37,665.4 million and RMB39,788.3 million, which accounted for 47.6%, 40.5%, 38.4% and 37.9% respectively, of our total personal loans. As of the same dates, our NPL ratio of residential mortgage loans was 0.25%, 0.20%, 0.73% and 0.67%, respectively. As of December 31, 2018, 2019 and 2020 and March 31, 2021, our loans mortgaged by real estate accounted for 48.5%, 50.5%, 51.9% and 52.1%, respectively, of our total loans and the NPL ratio of such loans mortgaged by real estate was 1.00%, 0.64%, 0.73% and 0.64%, respectively. The PRC government has imposed, and may continue to impose, various macroeconomic policies to regulate the real estate market. For instance, on August 25, 2019, PBoC issued an announcement (PBoC Notice (2019) No.16) regarding the interest rate for newly extended mortgage loans, promulgating that since October 8, 2019, newly extended mortgage loans shall be priced by adding basis points to the LPR of corresponding maturity quoted in the previous month. The interest rate of residential mortgage loans for the first residential property shall not be lower than the LPR of corresponding maturity, and that of the second residential property not be lower than the LPR of corresponding maturity plus 60 basis point. Further, the interest rates of the loan for commercial properties shall not be lower than the LPRs of corresponding maturities plus 60 basis points, and no adjustments shall be made to the interest rates of housing provident fund for residential properties for the time being. The basis points added should conform to the national and local housing credit policy requirements, reflect the loan risk profile, and remain fixed during the contract period. On December 28, 2019, PBoC announced that a benchmark floating interest rate of loans has been implemented with effect from March 2020. On December 28, 2020, the PBoC and CBIRC promulgated the Notice of PBoC and CBIRC on Establishing a Centralization Management System for Real Estate Loans of Banking Financial Institutions (《中國人民銀行、中國銀行保險監督管理委員會關於建立銀行業金融機構房地產貸款集中度管理制度的通知》). The PBoC and CBIRC shall implement categorized management on the centralization of real estate loans based on the asset scale and type of organization of the financial institutions in the banking industry, among which the maximum proportions of real estate loans for large and medium cities and urban rural cooperative organizations and personal residential mortgage loans shall be 22.5% and 17.5%, respectively. For details, please see "Supervision and Regulation — Regulations on Principal Activities of Commercial Banks — Lending." Such measures may adversely affect the financial condition, liquidity and repayment capability of our customers in the real estate industry and in turn slow down the growth of our loans extended to the real estate industry. These measures may also reduce the demand for residential mortgage loans in China. In addition, any significant decline in property prices in China may have a material adverse effect on the asset quality of our corporate loans to customers in the real estate industry and residential mortgage loans. If the real estate market in China experiences a significant downturn, the value of the real estate as collateral for our loans may decrease to a level insufficient to cover the principal of and interest on the loans, which could lead to our inability to recover all or part of principal and interest if the borrower defaults. Measures we took to control our risks associated with the real estate industry may not be effective or sufficient to protect us against the effects of any fluctuation in China's real estate sector.

**A portion of our loans and advances to customers are not secured by collateral or guarantee, and the collateral or guarantees of other loans may not be sufficient or fully realizable.**

As of December 31, 2018, 2019 and 2020 and March 31, 2021, 91.8%, 86.3%, 87.3% and 87.6% of our loans and advances to customers were secured by mortgages, pledges and guarantees, respectively. The collateral securing our loans and advances to customers primarily consisted of land use rights, buildings and houses, machinery and equipment, equity securities, bonds, certificates of deposit and other assets. The value of the collateral securing our loans may fluctuate and decline due to various factors beyond our control, such as fluctuation in financial market or property value of a certain geographic area. For instance, a slowdown in the PRC economy may lead to a downturn in the real estate market, which may in turn result in declines in the value of the real estate securing our loans to levels below the outstanding principal balance of such loans. Moreover, the prospects of the real estate industry and the values of real estates in the PRC are significantly affected by governmental macroeconomic policies, such as the benchmark interest rate and credit policies. In addition, there can be no assurance that our assessment of the values of collateral will be accurate at all times, in particular collateral with low liquidity. If our collateral proves to be insufficient to cover the related loans, we may have to obtain additional collateral from the borrowers and there is no assurance that we would be able to do so. Declines in the price of our collateral or our inability to obtain additional collateral may result in additional allowance for loan impairment, which may materially and adversely affect our business, financial condition or results of operations.

In the PRC, the procedures for liquidating or otherwise realizing the value of collateral may be time-consuming, the value of collateral may not be fully realized, and it may be difficult to enforce claims in respect of such collateral. In addition, under certain circumstances, claims by other creditors may be senior or have priority over our claims to the same collateral securing our loans, especially if our rights under such collateral have not been registered pursuant to relevant PRC laws and regulations. All of the foregoing factors could adversely affect our ability to realize the value of the collateral securing our loans in a timely manner or at all.

Our guaranteed loans are guaranteed but generally not secured by collateral or other security interests. In addition, some of the guarantees are provided by affiliates of the relevant borrower, so that certain factors which result in a borrower's inability to repay a guaranteed loan in full and on time may also affect the guarantor's ability to fully perform its guarantee obligations and, therefore, expose us to additional risks. Moreover, we are subject to the risk that a court or any other judicial or government authority may declare a guarantee invalid or otherwise decline or fail to enforce such guarantee. Therefore, we are exposed to the risk that we may not be able to recover all or part of our guaranteed loans. If we are unable to dispose of assets of borrowers and guarantors or if the guarantors fail to fully perform their guarantee obligations on a timely basis, our business, financial condition or results of operations may be adversely affected.

As of March 31, 2021, unsecured loans accounted for 12.4% of our loans and advances to customers. We grant such unsecured loans mainly based on our credit evaluation of such customers. We cannot assure you that our credit assessments of such customers are or will be accurate at all times, or that such customers will repay their loans in full and on time. As we only have general claims on the assets of defaulting borrowers under unsecured loans, we are exposed to a relatively high risk of losing the entire amounts outstanding under such loans, which may adversely affect our business, financial condition or results of operations.

**Natural disasters, epidemics, acts of war or terrorism or other factors beyond our control may have a material adverse effect on our business operations, financial condition and results of operations.**

Natural disasters, epidemics, acts of war or terrorism or other factors beyond our control may adversely affect the economy, infrastructure and livelihood of the people in the regions where we conduct our business. These regions may be under the threat of flood, earthquake, sandstorm, snowstorm, fire or drought, power shortages or failures, or are susceptible to epidemics, potential wars or terrorist attacks. Serious natural disasters may result in a tremendous loss of lives and injury and destruction of assets and disrupt our business and operations. Severe communicable disease outbreaks, including the recent outbreak of COVID-19 across China and around the world, could result in a widespread health crisis that could materially and adversely affect the economy and financial markets.

Acts of war or terrorism may also injure our employees, cause loss of lives, disrupt our business network and destroy our markets. Any of these factors and other factors could have an adverse effect on the overall business sentiment and environment, lead to uncertainties in the regions where we conduct business, and materially and adversely affect our business, financial condition or results of operations.

**We are exposed to risks inherent to rural banking business, and in particular, Sannong (三農) -related loans.**

One of our key strategies has been and continues to be focusing on opportunities arising from the development in the rural area. As of March 31, 2021, Sannong-related loans amounted to RMB32,275.4 million.

As a manufacturing city, Dongguan is characterized by low proportion of traditional agriculture business, high urbanization rate and high family income in rural areas, which is different from the traditional Sannong characteristics of China. Our rural banking business is highly correlated to the modern Sannong development of Dongguan, and may be exposed to risks that certain the Village Groups of Dongguan may be unable to repay loans due to high liabilities. In addition, the Village Group residents' preference to use online banking channels may negatively impact the operations of our outlets and channels, and preference to investment by Village Group residents may also negatively impact our deposit growth.

As of March 31, 2021, the NPL ratio of our loans to Sannong businesses was approximately 0.70%. Balances of our loans to Sannong businesses shall maintain an annual increase in accordance with the applicable requirements of regulatory authorities. These regulatory measures may affect our ability to optimize our capital deployment and improve our customer mix, which may in turn adversely affect our profitability and financial condition. In addition, if CBIRC promulgate any mandatory requirements on loans to Sannong businesses of rural commercial banks in the PRC, and we are unable to comply with the related requirements, CBIRC may reject our application for licenses of new banking business, impose restrictions on our business or investing activities or implement more stringent regulatory measures on us, which may materially and adversely affect our business, results of operations and financial condition.

**We are subject to risks relating to our interbank business.**

As of December 31, 2018, 2019 and 2020 and March 31, 2021, the balances of our financial assets held under resale agreements and deposits and placements with banks and other financial institutions amounted to RMB15,033.6 million, RMB21,299.7 million, RMB18,707.4 million and RMB19,338.9 million, representing 3.7%, 4.6%, 3.4% and 3.4% of our total assets as of the same dates, respectively. We are exposed to credit risks in our interbank business as a result of default by counterparties, being banks and other financial institutions, which may be attributable to a broad range of factors beyond our control, including, without limitation, deterioration of general economic or social conditions, liquidity crisis in the interbank market, or credit deterioration, operational failure or bankruptcy of the relevant counterparties.

According to relevant PRC laws and regulations, including the Circular on Regulating Interbank Businesses of Financial Institutions (《關於規範金融機構同業業務的通知》) (銀發[2014]127號) jointly issued by the PBoC, CBRC, CSRC, CIRC and SAFE on April 24, 2014 (the "**Circular 127**"), the net balance of interbank lending of a commercial bank to a single incorporated financial institution (excluding interbank deposits for settlement purposes), after deducting assets with zero risk weight, shall not exceed 50% of its tier-one capital. The balance of interbank borrowing of a commercial bank shall not exceed one-third of its total liabilities. Subject to the aforementioned laws and regulations and other applicable requirements, we may not be able to acquire sufficient short-term funds from the interbank market at all times, and regulatory authorities may impose further restrictions on interbank business and interbank borrowing. As a result, our funding costs may increase, which may materially and adversely affect our liquidity and profitability.

**We are subject to risks relating to our investments in debt securities.**

During the Track Record Period, our total debt securities investment consisted of a major portion of the total financial investments. As of December 31, 2018, 2019 and 2020 and March 31, 2021, the balance of our total debt securities investment amounted to RMB167,140.6 million, RMB173,654.7 million, RMB198,595.1 million and RMB200,165.7 million, respectively, representing 89.8%, 90.1%, 88.4% and 87.9% of our total financial investment (including accrued interest), respectively. During the Track Record Period, our debt securities have been classified as financial investments at amortized costs, financial investments at fair value through profit or loss, or financial investments at fair value through other comprehensive income under IFRS 9.

Our debt securities investments consist of debt securities issued by the PRC government, commercial banks and other financial institutions, PRC corporate issuers, and interbank certificates of deposits issued by PRC banking institutions. Debt securities issued by the PRC central and local governments constitute the major part of our investments in debt securities, which are considered to be low-risk debt securities as their repayment is financed by the central and local governments. On the other hand, repayments of debts securities issued by private enterprises mainly depend on the financial status of the respective private enterprises, which bears higher risk such as disruption to the capital chain. Therefore, debt securities issued by PRC central and local governments are usually considered to have comparatively lower risk than debt securities issued by private enterprises.

In recent years, as a result of changes to the regulatory regimes and market conditions, additional investment products have been introduced to the market, such as trust plans, asset management plans, wealth management products issued by financial institutions, investment funds, asset-backed securities, and beneficiary certificates. We adopted prudent risk management policies for our investment in wealth management plans through fund companies and securities companies, including pre-investment selection and evaluation on such fund companies and securities companies. However, there are certain risks pertinent to such fund companies and securities companies that are beyond our control, such as potential breach of our investment contracts regarding investment portfolios and misappropriation of funds. On the other hand, investments in equity products by commercial banks are still subject to strict restrictions. Restrictions on the ability to diversify the investment portfolio of commercial banks in China, including us, may limit our ability to seek optimal returns.

Furthermore, various factors may lead to fluctuation in the value of debt securities we invest in, including (i) the issuer's failure to make repayment; (ii) lack of liquidity; (iii) inflation; (iv) an increase in the current or expected market interest rate or change in other economic condition; and (v) changes in relevant government policies. We hold the write-down eligible tier-two capital bonds (with write-down clause) issued by other PRC commercial banks, with the amount of RMB903.49 million as of March 31, 2021. Upon the occurrence of the triggering events under the write-down clause, the issuer shall have the right to irrevocably write down the principal amount of the bonds and other tier-one capital instruments issued in full without the consent of bondholders from the day following the date of the triggering events. Any accumulated unpaid interest will not be paid either. Such regulatory triggering events include (i) CBRC believes that the issuer could not survive without write-down; and (ii) the relevant authorities believe that the issuer could not survive without capital injection from the public sector or furnishing support with equal effects. When the principal amount of the bonds has been written down, the bonds are permanently cancelled and will not be reinstated under any conditions. If the value of any debt securities we invest in significantly declines, our asset quality, financial condition, and results of operations may be materially and adversely affected.

**We are subject to risks relating to our investments in rights to earnings on credit assets and fund investments.**

As of December 31, 2018, 2019 and 2020 and March 31, 2021, the balance of our rights to earnings on credit assets amounted to RMB11,566.8 million, RMB7,694.2 million, RMB4,783.7 million and RMB4,362.2 million, representing 6.2%, 4.0%, 2.1% and 1.9% of our total financial assets (exclusive of accrued interest), respectively. As of the same dates, the balance of our fund investments amounted to RMB6,423.5 million, RMB10,215.3 million, RMB20,496.9 million and RMB22,358.5 million, representing 3.4%, 5.3%, 9.1% and 9.8% of our total financial assets (exclusive of accrued interest), respectively. For the years ended December 31, 2018, 2019 and 2020 and for the three months ended March 31, 2020 and 2021, interest income from such rights to earnings on credit assets amounted to RMB500.8 million, RMB716.4 million, RMB151.5 million, RMB46.8 million and RMB13.9 million, respectively. For the same periods, dividend income from such funds amounted to RMB223.8 million, RMB281.0 million, RMB400.8 million, RMB140.1 million and RMB52.5 million, respectively.

The repayment of principal of, and returns on certain of our investments in rights to earnings on credit assets is secured by collateral provided by ultimate borrowers, including properties, automobiles, land use rights and certificates of deposit. There can be no assurance that our relevant risk management systems and process will be as effective as anticipated. Moreover, we may be unable to rely on or realize the value of such collateral, as such collateral may be provided to the trust companies and banks instead of directly providing to us. Our expected credit losses and asset losses increased by 7.0% from RMB2,593.5 million for the year ended December 31, 2019 to RMB2,774.3 million for the year ended December 31, 2020, primarily due to the purchase of certain non performing assets. During the year ended December 31, 2020, we recognized an asset loss of RMB2,298.2 million based on the fair value of the assets attributable to us in relation to the rights to earnings of certain non-performing assets of Chaoyang RCCU acquired by us in December 2020 as part of the reformation of Chaoyang RCCU. For details, please see "History, Development and Corporate Structure — Material Acquisition during the Track Record Period — Establishment of Chaoyang RCB — Acquisition of non-performing assets of Chaoyang RCCU".

Any deterioration in the business or financial condition of any of the ultimate borrowers could undermine the quality of our investment. We do not have direct legal recourse to certain ultimate borrowers, obligors or their guarantors in the underlying transactions if the agreed return rates cannot be achieved or the principal of our investments cannot be repaid. Therefore, our business, financial condition or results of operations may be adversely affected.

**We determine fair value of level 3 financial instruments based on valuation methods and various assumptions of unobservable inputs, which fluctuated during the Track Record Period and may continue to fluctuate with the unobservable inputs in the future.**

Fair value of a financial instrument is the amount that would be received when sell an asset or paid when transfer a liability in an orderly transaction between market participants at the measurement date. Instruments classified in level 3 of the fair value hierarchy are those which require one or more significant inputs that are not observable, which may fluctuate as the unobservable inputs change. As of December 31, 2018, 2019 and 2020 and March 31, 2021, our level 3 financial assets amounted to RMB25,719.6 million, RMB23,286.9 million, RMB32,883.1 million and RMB32,099.3 million, respectively, representing approximately 18.3%, 18.4%, 22.9% and 21.6%, respectively, of our total financial assets at fair value as of the same dates and approximately 6.3%, 5.0%, 6.0% and 5.7%, respectively, of our total assets as of the same dates. For details, please see Note 42.4 to the Accountant's Report in Appendix I to this prospectus.

Our level 3 financial assets are initially valued at transaction price absent any contradictory evidence. Our management takes into various factors, including, among other things, changes in unobservable inputs such as estimated future cash flows and discount rates to make judgments of such level 3 financial assets' fair value. Many of these factors are beyond our control and may not be available on a consistent basis. Moreover, there is inherent limitation in such subjective judgment and estimation process. Fair value of relevant financial instrument may be accordingly affected, which may lead to an adverse effect on our financial condition and results of operations.

**We are subject to risks relating to wealth management products we offered.**

In recent years, we have been providing wealth management products and services to our customers. As of December 31, 2018, 2019 and 2020 and March 31, 2021, the balance of our issued principal-guaranteed wealth management products amounted to RMB15,645.2 million, RMB8,638.3 million, RMB2,436.3 million, and RMB1,639.8 million, respectively; and the balance of our issued non-principal-guaranteed wealth management products amounted to RMB34,435.7 million, RMB37,047.0 million, RMB41,157.7 million, and RMB42,344.0 million, respectively.

We have invested the funds raised from our wealth management products in, among other things, debt securities, bank deposits, money market instruments, non-standard credit assets and other fixed income products. Investments with non-standard credit assets as underlying assets may involve certain risks that are beyond our control, including, among other things, lower liquidity compared to credit debt. Non-standard credit assets invested by our Bank include but are not limited to interbank borrowing, direct financing instruments for wealth management products, circulated credit asset items and rights on earning related products quoted on the Banking Credit Asset Registration and Circulation Center (銀行業信貸資產登記流轉中心), trust loan, beneficiary certificates quoted by CSI Inter Agency Quoted Systems, Inc. (中證機構間報價系統股份有限公司) and credit financing plans of Beijing Financial Assets Exchange (北京金融資產交易所). As non-standard credit assets are not listed and traded on interbank markets or markets approved by the State Council such as stock exchange markets and most of the defaults of non-standard credit assets are dealt with in private and other creditors will not be informed unless and until legal proceedings are known to the market, default costs of non-standard credit assets are lower than those of standard credit assets and their asset liquidity is also lower than that of standard credit assets. As of December 31, 2018, 2019 and 2020 and March 31, 2021, our investments with funds raised from our wealth management products in non-standard credit assets as underlying assets amounted to RMB6,250.1 million, RMB3,496.4 million, RMB12,264.1 million and RMB11,021.7 million, respectively, representing 12.5%, 7.7%, 28.1% and 25.1%, respectively, of the balance of our wealth management products as of the same dates.

We must reimburse clients for losses in the principal amount invested in the principal-guaranteed wealth management products. If our clients suffer financial loss or other damages due to investments in our principal-guaranteed financial products, we could be subject to lawsuits or regulatory actions. As most of the wealth management products issued by us are non-principal-guaranteed, we are generally not liable for any loss suffered by the investors in these products. However, to the extent the investors suffer losses on these wealth management products, our reputation may be negatively affected, and we may also suffer a loss of business and customer deposits. Moreover, we may eventually bear losses for non-principal-guaranteed products if the investors bring lawsuits against us and the court rules that we are liable for inadequate disclosure or otherwise.

In addition, the terms of wealth management products offered by us are often shorter than the underlying assets. This mismatch subjects us to liquidity risk and requires us to offer new wealth management products, dispose of the underlying assets or otherwise seek financing to address the funding gap when existing wealth management products mature.

The PRC regulatory authorities have introduced regulatory policies to restrict the size of PRC commercial banks' investments in non-standard credit assets with funds raised from wealth management products. For details, please see "Supervision and Regulation — Regulations on Principal Activities of Commercial Banks — Wealth Management". If PRC regulatory authorities impose further restriction on the wealth management business of PRC commercial banks, it could adversely affect our business, financial condition or results of operations.

**We are exposed to risks and uncertainties in connection with the PRC regulations governing the wealth management business.**

According to the Asset Management Guiding Opinion, there is a transition period of two years for principal-guaranteed wealth management products to withdraw from the market. In addition, the Asset Management Guiding Opinion requires banks and other financial institutions to, among other things, manage the products by net value, regulate fund pools, reduce the risks of maturity mismatch, limit debt ratio of products, properly categorize underlying assets based on nature of assets, improve information disclosure on products sales and distribution management, and eliminate the practice of channels for multi-layer embedment. The Asset Management Guiding Opinion and its detailed implementation rules promulgated by PBoC in July 2018 have also imposed further restrictions on our business operations. On July 31, 2020, the Notice of Optimizing Arrangement for the Transitional Period of Asset Management Guiding Opinion to Facilitate Steady Transformation of Asset Management Business (《優化資管新規過渡期安排引導資管業務平穩轉型》的通知) was issued by the PBoC, which expressly stated that in order to facilitate the implementation of Asset Management Guiding Opinion and regulate the transformation of asset management business, upon the consent of the State Council, the PBoC conducted prudent study jointly with the NDRC, MOF, CBRC, CSRC, SAFE and other relevant authorities and decided to extend the transitional period until the end of 2021. Moreover, CBIRC issued the Measures for the Supervision and Management of Wealth Management Business of Commercial Banks (《商業銀行理財業務監督管理辦法》) on September 26, 2018, which strengthened the supervision and management of wealth management products issued by commercial banks. For details, please see "Supervision and Regulation — Regulations on Principal Activities of Commercial Banks — Wealth Management".

Failure to meet the above regulations or policy might lead to administrative measurements or other actions against us. In addition, we may need to increase our administrative expenses and incur other operating costs to bring our operation and management measures into compliance with the above regulations. Moreover, any issuance of regulatory policies governing the wealth management business in the PRC banking industry in the future may limit our wealth management businesses and products to be offered by us to an even larger extent. As such, we will not be able to continue to provide certain of our wealth management products.

**We are exposed to risks in connection with personal loans.**

We offer our individual customers a variety of personal loan products, including residential mortgage loans, credit card balances, personal business loans and personal consumption loans. As of December 31, 2018, 2019 and 2020 and March 31, 2021, our personal loans represented 30.1%, 38.9%, 37.5% and 38.1%, respectively, of our total loans and advances to customers (exclusive of accrued interest).

We may not be able to obtain all information required for assessing credit risks of our personal loan customers and credit card holders or to verify such information as a result of the developing credit information system in the PRC. Moreover, comparing with the customers of our other business lines, our personal loan customers and credit card holders are generally more vulnerable to adverse changes in their financial situations, such as deteriorating personal income, losses from personal-owned business, prolonged unemployment or unexpected life costs such as medical expenditures. Due to the substantial number of our personal loan customers and credit card holders, the collection of non-performing personal loans may not realize as soon as we expect, or at all. In spite of our multiple risk control measures in connection with our personal loan products, there can be no assurance that such measures can effectively and fully manage the above risks. Any increase in the NPL ratio of our personal loans may materially and adversely affect our business, financial condition or results of operations.

**We had net cash flows used in operating activities for the three months ended March 31, 2021 and for the year ended December 31, 2019. If we have operating cash outflows in the future, our liquidity and financial conditions may be materially and adversely affected.**

During the Track Record Period, we had a net cash used in operating activities of RMB2,300.9 million and RMB6,997.6 million for the three months ended March 31, 2021 and for the year ended December 31, 2019, respectively. The net cash outflow from operating activities and the increases in loans granted and advances to customers for the year ended December 31, 2019, which was in line with our business expansion. We cannot assure you that we will be able to generate positive cash flows from operating activities in the future. Our liquidity and financial condition may be materially and adversely affected by negative net cash flows, and we cannot assure you that we will have sufficient cash from other sources to fund our operations. If we resort to other financing activities to generate additional cash, we will incur financing costs and we cannot guarantee that we will be able to obtain the financing on terms favorable to us, or at all.

**We may participate in government driven projects, certain of which may not achieve profit expectation or requires a long payback period, which in turn may negatively affect their performance and respective contributions to our financial results.**

During the Track Record Period, in light of the People's Government of the Guangdong Province's policy in reforming all the rural credit cooperatives, which generally have weaker risk management system, internal control and corporate governance policies, in Guangdong Province as rural commercial banks to enhance their management and improve the quality of their credit assets, our Bank has been invited by the People's Government of the Guangdong Province to participate in the reformation of Chaoyang RCCU as Chaoyang RCB. We participated in the reformation of Chaoyang RCCU as Chaoyang RCB. For more details, please see "History, Development and Corporate Structure — Material Acquisition during the Track Record Period". In addition to subscribing for shares of Chaoyang RCB and acquiring shares from original shareholders of Chaoyang RCCU at the aggregate consideration of RMB1,817.7 million to acquire a 67.03% interest in Chaoyang RCB, we also acquired the rights to earnings of certain non-performing assets of Chaoyang RCCU at the consideration of RMB3,068.5 million and recognized a loss of RMB2,298.2 million based on the results of fair value assessment of such rights to earnings assets in order for Chaoyang RCCU to improve its asset quality and replenish its tier-one capital for meeting the relevant regulatory indicator requirements.

Going forward, we may continue to participate in government driven projects, including opportunities arising out of the central and local government's initiative to establish rural commercial banks and reform the banking industry, in order to expand our geographic or customer reach.

Such existing or any future acquisitions may expose us to potential risk, including:

- future deterioration of the operational condition and asset quality of the acquired targets;
- unidentified issues not discovered in our due diligence process, such as hidden liabilities and legal contingencies;
- distraction of management's attention from normal operations during the acquisition and integration process;
- failure to realize synergies expected from acquisitions or business partnerships; and
- unexpected delays in completing any such acquisitions.

Moreover, identifying such opportunities demands substantial management time and resources, and negotiating such acquisitions may incur significant costs and uncertainties. If we fail to successfully source, execute and integrate acquisitions, our overall growth could be impaired, and our business, financial condition, results of operations and prospects could be materially and adversely affected.

**We may be subject to risks related to our geographic expansion and the development in our distribution network.**

As of the Latest Practicable Date, our Bank had 501 outlets in Dongguan. In addition, we expanded our business into selected regions outside Dongguan. As of the Latest Practicable Date, we established four outlets outside Dongguan, and controlled and consolidated four county banks, Zhanjiang RCB and Chaoyang RCB. Such geographic expansion, in particular expansion through merger and acquisition, may involve risks and challenges, including disruption of business, temporary deterioration of asset quality, hidden liabilities, financial obligations, difficulties in integrating personnel, financial, risk management and other systems, hiring additional management and other key personnel, diversion of the attention of our management on our existing operations and increases in the scope, geographic diversity, risk and complexity of our business and operations. Moreover, we may not realize all of the benefits or achieve the synergies from such geographic expansion as anticipated, or at all.

**We may not be able to effectively manage the risks associated with the autonomy of our subsidiaries.**

As of March 31, 2021, we consolidated six subsidiaries, including four county banks, Zhanjiang RCB and Chaoyang RCB. We are the largest shareholder of all these six subsidiaries and entered into acting-in-concert agreements with certain of other shareholders of one of the county banks in which we held less than 50% equity interest. We consolidated all four county banks, Zhanjiang RCB and Chaoyang RCB in our financial statements pursuant to the applicable accounting standards. For details, please see "Appendix I — Accountant's report — Note 19 Subsidiaries".

Our Bank has entered into acting-in-concert agreements, with certain minority shareholders of Dongguan Dalang Dongying County Bank, such minority shareholders may fail to abide by their contractual obligation, against which we may have limited or no recourse. We may not be able to continue to consolidate the financial results of such subsidiary if its minority shareholders cease to align their votes with us, or if the acting-in-concert agreement is terminated.

Each of our subsidiaries is an independent legal entity regulated by CBIRC with a high level of autonomy. Accordingly, there can be no assurance that the subsidiaries will always operate their businesses in a manner consistent with our expectation or guidance. Moreover, in spite of the various risk management measures we have adopted to mitigate relevant risks as disclosed in details in "Risk Management — Credit Risk Management", there can be no assurance that the subsidiaries manage risks as rigorously as we do, or we can always successfully identify, prevent or mitigate deficiencies associated with their risk management, internal control system and information technology systems in a timely manner, or at all, due to limitations by nature of risk management work, which could lead to a disruption of our operations, liability to clients, exposure to disciplinary action or reputational damages.

**We may be exposed to risks related to the expansion of the range of our products and services, in particular, our fee-and-commission-based products and services.**

For the years ended December 31, 2018, 2019 and 2020 and for the three months ended March 31, 2020 and 2021, net fee-and-commission income is an important component of our operating income, representing 9.7%, 8.9%, 7.8%, 6.1% and 6.1% of our operating income, respectively.

In our effort to expand and diversify our product and service offerings, we face various risk factors, including:

- our experience and expertise in managing new products and services;
- our ability to recruit additional qualified staff;
- our ability to provide satisfactory customer service, such as providing sufficient products and service information and handling customer complaints;
- acceptance of new products by our customers;
- our ability to establish an effective management team or to enhance our risk management systems and information technology system to support a broader range of products and services;
- our ability to identify and effectively manage all potential risks associated with our products and services; and
- the actions of our competitors and other financial service providers.

We are the distributor or agent rather than the principal issuer or borrower of certain fee-and commission-based products and services. These products and services are also subject to inherent risks associated with financial performance or business operations of relevant issuers or owners of underlying assets, which could be affected by many factors beyond our control, including, among other things, economic conditions or proper compliance with laws and regulations by relevant third parties. Although we are not liable for any losses or defaults directly derived from such products and services, we may still be exposed to customer complaints, negative media coverage and potential litigation which may adversely affect our reputation.

If we are unable to offer more fee-and-commission-based products and other non-interest income products and services, we may continue to rely heavily on interest income, and may face pressures resulting from greater competition among banks for interest income and lower net interest margins from interest rate liberalization measures. For details, please see "— Risks Relating to the PRC Banking Industry — Further liberalization of interest rates, PBoC's adjustments to the benchmark interest rates, the ongoing reform of the LPR mechanism, the deposit insurance program and other regulatory changes in the PRC banking industry may materially and adversely affect our financial condition and results of operations."

Moreover, if we are unable to obtain relevant regulatory approvals, or comply with relevant banking regulations in the sales and marketing of our new financial products and services, we may be subject to legal proceedings or regulatory sanctions, which in turn could lead to significant financial losses and reputational damages.

Our expansion in our offerings of products and services has exposed and will continue to expose us to new and potentially increasingly challenging market and operational risks. If we fail to expand and diversify our product and service offerings, our growth rate, financial condition and results of operations may be affected.

**Changes in accounting standards or policies, including, among other things, adoption of expected credit loss model under IFRS 9, may require us to change our provisioning practice for impairment on financial assets.**

Financial accounting and reporting standards as well as the relevant interpretation of these standards, which govern the form and content of our financial statements, are subject to changes from time to time. Such changes are beyond our control, can be difficult to predict and may materially impact how we record and report the result of our operations. For instance, we may be required to apply a new or a revised standard retroactively, leading to material changes to previously reported financial results.

During the Track Record Period, we have adopted IFRS 9. IFRS 9 adopts expected credit loss model where a loss event will no longer need to occur before an impairment allowance is recognized. In addition, the impairment model of IFRS 9 demands our management to judge whether there is a significant increase in credit risks in financial assets that are classified as "amortized cost" or "fair value through other comprehensive income" under IFRS 9, and if so, make provisions for a lifetime expected credit losses for those assets rather than setting out allowance in the amount of 12-month expected credit losses. For details, please see "Financial Information — Critical Accounting Estimates and Judgment".

The estimate of expected credit losses adopted in the impairment model of IFRS 9 is subjective in nature, as it is based on many factors beyond our control and is therefore subject to inherent limitations and uncertainties There is no assurance that our assessment and expectation would be accurate or the actual losses on such assets will not significantly increase in the future compared to our expected losses, or the impairment allowance will be sufficient to cover all losses we may actually incur in the future, or there will not be any other future changes to our accounting policies. Any of these could materially and adversely affect our business, financial condition and results of operations.

**Our deferred tax assets may not be recovered.**

As of March 31, 2021, our deferred tax assets amounted to RMB3,089.1 million, representing approximately 0.5% of our total assets as of the same date. We periodically assess the probability of the realization of deferred tax assets, using accounting judgments and estimates with respect to, among other things, historical operating results, expectations of future earnings and tax planning strategies. In particular, as those deferred tax assets can only be recognized to the extent that it is probable that future taxable profits will be available against which the unused tax credits can be utilized. However, there can be no assurance that our expectation of future earnings will always be accurate as a result of factors beyond our control, such as general economic conditions or negative development of regulatory environment, or if we fail to recover impaired loans and advances or financial assets, in which case the value of our deferred tax assets may not be recoverable and may result in a valuation allowance that would negatively affect our financial condition and results of operations.

**Our current risk management systems may not adequately protect us against credit, market, liquidity, operational and other risks.**

Our risk management capabilities are limited by the information, tools or technologies available to us. For example, we may not be able to effectively monitor credit risk due to limited information sources or tools. In recent years, we have undertaken various initiatives to strengthen our risk management capabilities, including improving our internal credit rating mechanisms, operational risk management, measurement tools to assess market risk and liquidity risk, legal risk management, and reputational risk management and continually upgrading our information technology system. However, our ability to successfully execute such mechanisms and operate such systems and to monitor and analyze their effectiveness is subject to continuous testing and improvement. For details, please see "— Our business is highly dependent on the proper functioning and improvement of our information technology systems to meet challenges arising from internet finance."

If we are not able to effectively improve our risk management and internal control policies, procedures and systems, or if we are not able to achieve the intended results of such policies, procedures or systems in a timely manner, our asset quality, business, financial condition or results of operations may be materially and adversely affected.

**We may have difficulties in meeting capital adequacy and other regulatory requirements in the future.**

We are subject to capital adequacy regulations set by CBIRC. For details, please see "Supervision and Regulation — Supervision over Capital Adequacy". Pursuant to the requirements of PRC banking regulatory authorities, our capital adequacy ratios of each tier shall remain no lower than the minimum capital adequacy requirements under the Capital Administrative Measures for Commercial Banks (Provisional) (商業銀行資本管理辦法（試行）) (the "**Capital Administrative Measures (Provisional)**"). Calculated in accordance with the Capital Administrative Measures (Provisional), as of March 31, 2021, our core tier-one capital adequacy ratio, tier-one capital adequacy ratio and capital adequacy ratio were approximately 11.52%, 11.56% and 13.93%, respectively, all of which satisfy the requirements of PRC banking regulatory authorities. CBIRC may increase the minimum capital adequacy requirements or change the methodology for calculating regulatory capital or capital adequacy ratios, and we may then be subject to new capital adequacy requirements. In addition, the relevant regulatory authorities implemented regulatory indicators and ratios higher than those stipulated in the relevant rules and regulations from time to time, and may continue to do so in the future. Such higher standards may be implemented in response to temporary or long-term changes in macroeconomic conditions or in support of existing or future government initiatives, and may not always be adequately anticipated. Our operational metrics and risk management structure are designed to comply with the regulatory indicators and requirements, and we may need to make operational or management changes to adapt to and comply with higher regulatory indicators and ratios when they come into effect. Such changes include, but not limited to, enhancement of risk control processes, increase in loan approval standards, and review any analysis of existing loan portfolio. We may also need to implement any necessary changes in the timeframe as stipulated by the relevant regulatory authorities and it may require significant financial and human resources for the compliance with such higher standards.

Our ability to satisfy the current regulatory capital adequacy requirements could be adversely affected as a result of deterioration in our financial condition, including deterioration in the quality of our assets, such as an increase in non-performing loans, and a decline in our profitability. If our business growth needs places capital demands on us in excess of what we are able to generate internally or raise in the capital markets, we may need to seek additional capital through alternative means. However, we may not be able to obtain additional capital on commercially acceptable terms in a timely manner or at all. Our ability to obtain additional capital may also be restricted by a number of factors, including our future business, financial condition, results of operations and cash flows, conditions prescribed by PRC law and regulatory approvals, general market conditions for capital-raising activities by commercial banks and other financial institutions, as well as economic, political and other conditions both within and outside China. We may face increased compliance and capital costs as a result of these capital requirements. Moreover, as these capital adequacy requirements place restrictions on the ability of banks to leverage on their capital to achieve growth in their loan portfolios, our results of operations may be materially and adversely affected, and our capacity to further grow our business may be constrained. If at any time in the future we fail to meet these capital adequacy requirements, CBIRC may take a series of measures upon us, including, for example, imposing restrictions on our lending and investment activities, restricting the growth of our loans and other assets, declining our application to launch new businesses or restricting our ability to declare or pay dividends. Such measures may materially and adversely affect our business, financial condition or results of operations.

**Issues related to land use right and building ownership may adversely affect our ability to occupy and use certain properties owned by us and/or leased from third parties.**

As of the Latest Practicable Date, we owned or occupied 780 properties with an aggregate GFA of approximately 654,083.9 square meters in China. Certain of our properties have deficiencies such as:

- the building ownership certificate and the land use right certificate were registered under our name, but the land was state-owned allocated in nature;
- the building ownership certificate and the land use right certificate were registered under our name, but the land was collectively-owned in nature;
- we have obtained the building ownership certificates and the land use right certificates, but the building ownership certificates and/or land use right certificates have not been registered under our name for historical reasons;
- we have obtained the building ownership certificate but not the land use right certificate;
- we have obtained the land use right certificates but not the building ownership certificates; and
- we may not be able to obtain these title certificates; therefore, our ownership rights may be adversely affected in respect of these properties.

We may incur additional costs and a reduction in our revenue as a result of such relocation if it occurs.

As of the Latest Practicable Date, we had or in actual possession of 28 parcels of land in the PRC with an aggregate site area of approximately 198,604.5 square meters. We have obtained the land use right certificates for some of these parcels of land. Some of the land use right certificates are registered under the name of Zhanjiang RCB, our subsidiary. Zhanjiang RCB has applied for the state transfer of registration. The nature of land of certain parcels of land without land use right certificates is undetermined. There can be no assurance that our ownership rights will not be adversely affected. If we were forced to relocate any of the operations we conduct on the affected land, we may incur additional costs as a result of such relocation.

As of the Latest Practicable Date, we leased 687 properties with an aggregate GFA of approximately 253,570.3 square meters, which we mainly use as business premises. Some of these properties were leased from lessors who were not able to provide the title certificates. As a result, the validity of such leases may be subject to legal challenge. In addition, there can be no assurance that we would be able to renew such leases on terms acceptable to us upon their expiration or at all. If any of our leases is terminated as a result of challenges by third parties or if we fail to renew them upon expiration, we may be forced to relocate affected branches and incur additional costs, a reduction in our revenue or fines imposed by relevant authorities associated therewith, and our business, financial condition or results of operations may be adversely affected.

For details of our properties, please see "Business — Properties".

**We may not be able to detect and prevent fraud or other misconduct committed by our employees or third parties, and we may be subject to other operational risks.**

We are exposed to fraud or other misconduct committed by our employees or third parties, which could subject us to financial losses, third party claims, regulatory actions or reputational damages.

We cannot assure that our internal control policies and procedures are effective and sufficient to prevent, or that we can otherwise fully detect or deter, all incidents of fraud and misconduct. In addition, improper acts of third parties against us, such as fraud, theft of customer information for illegal activities, robbery and certain armed crimes, may also expose us to certain risks. As a result, our business, financial condition or results of operations could be materially and adversely affected.

**We rely on the continuing efforts of our key personnel and may not be able to recruit or retain an adequate number of qualified employees.**

Our ability to maintain growth and meet future business demands is dependent upon the continued services of our senior management and other key personnel. In particular, our future success depends substantially upon the industry experience, experience in our business operations and sales and marketing skills of our key personnel. For example, Mr. Wang Yaoqiu (王耀球先生), executive Director and Chairman of our Board of Directors, and Mr. Fu Qiang (傅強), executive Director and President of our Bank. Mr. Wang Yaoqiu has over 32 years of experience in the banking industry, and previously served as the vice president of Dongguan Branch of Bank of China Limited and president of Dongguan Branch and Guangzhou Branch of China Merchants Bank. He has a profound understanding of regional economic development and strategic transformation of banking industry, outstanding leadership, and vision. Mr. Fu Qiang has over 30 years of banking-related experience, and previously acted as deputy inspector of PBoC Guangzhou Branch (assistant bureau-level). He has extensive experience in, and in-depth understanding of the financial industry regulation in Guangdong Province. For information about the other senior management and major personnel, please see "Directors, Supervisors and Senior Management". The departure of any member of our key personnel may have an adverse effect on our business and results of operations. Moreover, we may face increasing competition in recruiting and retaining qualified employees, including our senior management, as other banks are competing for the same pool of qualified persons and our compensation packages may not be as competitive as those of our competitors. Moreover, our employees may resign at any time and some of our employees are not subject to long-term employment contracts. There can be no assurance that we will be able to recruit employees in sufficient numbers or with sufficient experience, or that competition in recruitment will not lead to increases in our employment costs. If we fail to recruit or retain a sufficient number of qualified employees, our business, financial condition and results of operations may be materially and adversely affected.

**If we fail to fully comply with the various regulatory requirements applicable to us, our reputation could be harmed and our business, financial condition or results of operations could be materially and adversely affected.**

We are subject to the regulatory requirements and guidelines set forth by various PRC regulatory authorities, which include CBIRC, PBoC, SAFE, CSRC, MOF, NAO, SAMR and SAT. These regulatory authorities carry out periodic supervision and spot checks of banks like us and have the authority to impose penalties or remediation action based on their findings. Particularly, online financing is relatively new and the relevant rules and regulations are still in the process of development. Such rules and regulations are subject to the interpretation by the competent authorities and their implementation involves uncertainties. For details, please refer to "Supervision and Regulation — regulations on principal activities of commercial banks — internet finance" in this prospectus. As of the Latest Practicable date, we are in compliance with the relevant laws and regulations on internet loan business. However, the relevant PRC authorities, including regional and local government, may issue new or revise current laws and regulations on internet loan finance, and the evolved requirements or our failure to comply with such applicable laws and regulations could have a material adverse effect on our business, financial condition, results of operations and prospects.

During the Track Record Period, we had incidents of non-compliance with the requirements of business continuity management which resulted in an aggregated fine of approximately RMB8.2 million. For details, please see "Business — Legal and Regulatory Matters — Regulatory Inspections and Proceedings — Administrative Penalties". As of the Latest Practicable Date, these incidents of non-compliance had not resulted in any material adverse effect on us. However, there can be no assurance that we will be able to comply with all the applicable regulatory requirements and guidelines, or comply with all the applicable regulations at all times, or that we will not be subject to sanctions, fines or other penalties in the future as a result of non-compliance. Failures to comply with applicable rules, guidelines, laws or regulations may damage our reputation, and materially and adversely affect our business, financial condition and results of operations.

**Although we have registered our trademarks in Hong Kong, there can be no assurance that the use of our Chinese name and English name in this prospectus and in the course of trade or business in Hong Kong, if any, will not be challenged in claims of trademark infringement and passing off.**

Since our establishment in 2009, we have been carrying on business under the name of "東莞農村商業銀行股份有限公司" in the PRC. In 2011, a U.S.-based bank made an application of trademark objection against us. In 2017, we obtained favorable adjudication. On June 6, 2018, we have successfully registered two trademarks of our Chinese name and English name in Hong Kong. For details, please see "Statutory and General Information — 3. Further Information about Our Business — B. Intellectual Property Rights — (a) Trademarks" in Appendix VII to this prospectus. However, even a valid registration of trademark will not necessarily preclude the use of our Chinese name and English name in this prospectus and the use of them in the course of trade or business in Hong Kong, if any, from constituting passing-off of another trade name or allegations of trademark infringement.

Intellectual property rights litigation can be costly and time-consuming and could divert our management's attention from business operations. Should we receive any complaint for trademark infringement or encounter any dispute in relation to the name we used for non-Hong Kong company registration, even we can win favorable judgment or order, our reputation as well as our business, financial condition and results of operations may be materially and adversely affected.

**The adoption of logos similar to ours by other financial institutions may lead to confusion among customers, which could materially and adversely affect our reputation, business, growth prospects, financial condition or results of operations.**

We own the intellectual property rights to our corporate names and logos. For details, please see "Business — Permits, Licenses and Qualifications — Intellectual Property Rights". There are other financial institutions (including rural credit cooperatives, rural cooperative banks and rural commercial banks) using logos similar to ours, which may create customer confusion or undesirable association of our products and services with those of our competitors. If any negative publicity is associated with any of these entities, our reputation, business, growth prospects, financial condition and results of operations may be adversely affected.

**We may not be able to detect money laundering and other illegal or improper activities on a timely basis, or at all, which could expose us to reputational damages and additional legal or regulatory liability risks.**

We are required to comply with applicable PRC anti-money laundering and anti-terrorism laws and regulations. These laws and regulations require us to adopt and enforce "know-your-customer" policies and procedures and to report suspicious and large amount transactions to the relevant regulatory authorities. In light of the complexity of money-laundering activities and other illegal or improper activities, such policies and procedures may not completely eliminate the possibility that we may be utilized by other parties to get involved in money laundering and other illegal or improper activities. To the extent that we fail to fully comply with such laws and regulations, the relevant government authorities may impose fines and other penalties on us. In addition, our business and reputation could deteriorate if customers manipulate their transactions with us for money laundering or other illegal or improper purposes. For details, please see "Risk Management — Departments Relating To Risk Management — Internal Control and Compliance Department" and "Supervision and Regulation — Ownership and Shareholder Restrictions — Anti-money Laundering Regulation".

**We are subject to risks associated with off-balance sheet commitments.**

We provide certain off-balance sheet commitments to our customers in the ordinary course of business, consisting primarily of bank acceptances, letters of credit, guarantees, and unused limit of credit cards. Such arrangements are not reflected on our balance sheet but constitute contingent assets or contingent liabilities. As of March 31, 2021, our off-balance sheet commitments totaled RMB13,438.7 million. For details, please see "Financial Information — Off-balance Sheet Commitments". We are subject to credit risks associated with these off-balance sheet commitments and may be required to provide funds when our customers are unable to perform their obligations. If we are unable to recover payment from our customer, our financial condition and results of operations may be materially and adversely affected.

**Our business is highly dependent on the proper functioning and improvement of our information technology systems to meet challenges arising from internet finance.**

Our business is highly dependent on the ability of our information technology systems to support our business development and accurately process a large number of transactions in a timely manner. The proper functioning of our internal control, risk management, customer service and other data processing systems, together with the communication networks between our various branches and our main data processing centers, is critical to our business and our ability to maintain competitiveness. For further information with respect to our information technology systems, please see "Business — Information Technology". There can be no assurance that our operations will not be materially disrupted if there is a partial or complete failure of any of these information technology systems. We are also subject to the risk of telecommunication network or Internet breakdowns. Such failures could result from, among other things, software bugs, computer virus attacks, conversion errors due to system upgrading, an equipment provider's failure to provide proper system maintenance, or natural disasters. Any security breach caused by unauthorized access to information or systems, loss or corruption of data and malfunction of software, hardware or other computer equipment could materially and adversely affect our business, financial condition or results of operations.

In addition, our ability to remain competitive will depend in part on our ability to upgrade our information technology system in a timely and cost-effective manner in order to respond to market changes and other developments. During the Track Record Period, we relied to some degree on manual inspection of our corporate customers' cash flow and other financial information, which subjected us to human error and lack of experience of the employees conducting such inspection. Thus, any failure to improve or upgrade our information technology systems or develop new systems effectively or on a timely basis may materially and adversely affect our business, financial condition or results of operations.

Moreover, challenges from financial services utilizing Internet technologies, such as online or mobile banking services, are increasingly fierce. As a result, our ability to remain competitive will also depend on the capacity of our information technology system to provide various products and services that utilize latest technologies with convenient accesses and cost-efficient management and enable the transition from providing services only through physical networks to integrate outlets with electronic and Internet-based channels. In the future, if the effectiveness or speed of the transition fails to meet our expectations for financial technology, our business, financial condition or results of operations may be materially and adversely affected.

**We are vulnerable to various security risks, especially cyber-attacks that may cause a temporary or prolonged suspension of our business operations and services provided, thus materially and adversely affect our business, financial condition and results of operations.**

Our business largely relies on the secure and efficient operation of the information technology systems. In recent years, as more and more public and private enterprises, including banks and financial institutions, are relying on the proper functioning of information technology systems for their business operations. As a result of the rapid technological advancement, we become more vulnerable to cyber-attacks, such as the cyber intrusion by computer hackers, foreign governments and cyber terrorists which may severely damage our Internet banking or mobile banking operations, causing temporary or prolonged suspension of our relevant services, or theft of customer data which may lead to the rising number of complaints or litigations from the relevant customers. Although we have configured internet firewall access policies, intrusion detection mechanism and other defensive measures, the possibility of being attacked still exists, and our information system is not completely protected from the potential damages. For details of our relevant measures implemented, please see "Risk Management — Information Technology Risk Management". The occurrence of any of the above-mentioned risks or safety intrusion incidents could materially and adversely affect our business, financial condition and results of operations.

**We have entered into outsourcing cooperation with third parties for certain information technology services, which could expose us to additional cost and interruption of our services.**

We have obtained, and will continue to obtain, certain information technology services through cooperation with third-party information technology and service providers. Any termination of, failure in such providing or failure to renew such cooperation may disrupt our operations, increase the relevant costs, divert management's attention and damage our reputation. If we are unable to find a suitable new service provider on a timely basis, or at all, we could be forced to temporarily or permanently discontinue certain services, which could materially and adversely affect our business, financial condition and results of operations.

**We may be involved in legal and other disputes from time to time arising out of our operations.**

We are involved in legal and other disputes from time to time for a variety of reasons, which are generally the loan disputes or claims arising out of our banking business. For details, please see "Business — Legal and Regulatory Matters — Legal Proceedings". In general, litigation is, however, inherently uncertain and unpredictable. There can be no assurance that the outcome in any of the litigation in which we are involved would be favorable to us and any future legal disputes we may confront could result in damage to our reputation, additional operational costs and a diversion of resources and management's attention from our business operations.

**Our consolidation of minority-owned subsidiaries is subject to accounting judgment.**

Our consolidated financial statements during the Track Record Period include the financial statements of Dongguan Dalang Dongying County Bank and Zhanjiang RCB, despite that we held less than 50% equity interest in these two subsidiaries. However, as we are the largest shareholder of Dongguan Dalang Dongying County bank and the shareholders holding 16% of equity interest in Dongguan Dalang Dongying County Bank agreed to vote as directed by our Bank, such bank is treated as our subsidiary. In addition, as we are the largest shareholder of Zhanjiang RCB and the shares held by the other shareholders are scattered, such bank is treated as our subsidiary. We primarily consider three elements when assessing whether we consolidate a subsidiary, namely (i) our power of control, (ii) our ability to exercise such power of control, or (iii) our exposure to the variable returns from our exercise of control. The assessment of our controlling power over our minority-owned subsidiaries involves substantial accounting judgment. Whether or not we consolidate a minority-owned subsidiary needs to be reassessed if facts and circumstances indicate that there are changes to one or more of the three elements of control. If Dongguan Dalang Dongying County bank or Zhanjiang RCB ceases to be consolidated as one of our subsidiaries, our consolidated results of operations may be adversely affected.

**We have certain Shareholders that we have been unable to contact and register, which may lead to potential disputes.**

As of the Latest Practicable Date, among our 57,595 existing Shareholders, we have not been able to verify certain of our Shareholders' identities as we were unable to contact them or for other reasons. Such unidentifiable Shareholders include one corporate Shareholder and 291 individual Shareholders. The Shares held by such Shareholders represented an aggregate of approximately 0.13% of our total issued share capital.

There can be no assurance that we will successfully contact and accurately record all holders of our Shares or all persons who are entitled to our Shares. We have entrusted the Shares held by all of our existing

Shareholders, including such unidentifiable Shareholders, to the Guangdong Equity Exchange Co., Ltd. (廣東股權交易中心股份有限公司). However, there can be no assurance that there will not be any disputes regarding equity interests raised by Shareholders, such as disputes over the dilution of their shareholding, including the Shares held by you. Any of such disputes or objections may result in negative publicity or reputational damages to us.

**Failure to protect the personal data of our customers or to comply with data privacy and protection laws and regulations could harm our reputation and deter customers from using our services, which could materially affect our results of operations.**

During the ordinary course of our business, we collect and store certain private information about our customers, such as their names, addresses and contact information, as well as their social and financial information, such as employment, proof of income and credit ratings. Although we strive to implement our data protection policies and procedures in a strict and consistent manner, unauthorized access to or leakage of personal data may still occur, which could materially and adversely affect our reputation, financial condition and results of operations.

PRC data privacy laws restrict our collection, storage, use, processing, disclosure and transfer of non-public personal information of customers. The PBoC's Notice on the Further Protection of Personal Financial Information by Financial Institutions issued on March 27, 2012 (Yin Fa [2012] No. 80) (《中國人民銀行關於金融機構進一步做好客戶個人金融信息保護工作的通知》) requires that banking financial institutions strictly follow the relevant laws and regulations when collecting, maintaining and using personal financial information, or when providing the same to external parties. Meanwhile, banking institutions shall not sell personal financial information of customers to any entity or individual, or provide such information to any external party against the relevant laws and regulations. They must adopt effective measures to ensure the safety of customers' personal financial information and prevent the unauthorized disclosure and misuse of the same. The State Council General Office's Guiding Opinions on Strengthening the Protection of Financial Consumers' Rights and Interests (《國務院辦公廳關於加強金融消費者權益保護工作的指導意見》), effective since November 2015, explicitly states that financial institutions must respect and protect consumers' basic rights, including their right to information safety. Regulatory authorities including the CBIRC and PBoC have also placed a growing emphasis on the protection of personal data. In September 2020, for instance, the PBoC released its Implementation Measures for Protecting Financial Consumers' Rights and Interests (《中國人民銀行金融消費者權益保護實施辦法》), which clearly state that financial information of consumers shall be used for the purpose in compliance with laws and regulations and agreed by both parties and kept in strict confidential, and no leakage or illegal disclosure to other parties shall be allowed. Financial institutions are required to set up a management system for the usage of financial information of consumers and implement technologies and other measures as necessary to properly maintain and store the financial information of consumers collected.

Furthermore, as the internet banking business continues to evolve, it is likely that the PRC regulatory authorities, including the CBIRC and PBoC, may tighten its regulation on the protection of consumers' online personal data. The existing and any future laws and regulations can be costly to comply with and can delay or impede the development of our new products, increase our operating costs, call for significant management time and attention, and subject us to claims for remedies, litigations, fines, or demands to modify or cease existing business practices. In addition, any public concerns about our practices with regard to the collection, use or disclosure of personal information or other privacy-related matters, even if unfounded, could damage our reputation, which may in turn cause material and adverse effects on our business, financial condition and results of operations.

**RISKS RELATING TO THE PRC BANKING INDUSTRY**

**We face increasingly intensive competition in China's banking industry.**

The banking industry in China is becoming increasingly competitive. We face competition from the PRC and foreign commercial banks in all of our principal lines of business in the locations where we have operations. We principally compete with commercial banks operating in Guangdong Province, including large commercial banks, joint stock commercial banks and other commercial banks. On July 1, 2013, the General Office of the State Council issued the Guidance Letter Regarding Financial Support for Promoting Economic Restructuring and Transformation (《國務院辦公廳關於金融支持經濟結構調整和轉型升級的指導意見》), or the Guidance Letter. The Guidance Letter, among other things, encourages investment by private sector capital in financial institutions and the establishment of privately-owned banks. The Guidance Letter provides a policy direction to the increasing involvement by private sector capital in the financial industry in China. We may therefore face competition from privately-owned banks in the future. Due to the market liberalization by the PRC government, competition in the PRC banking industry will be further intensified.

We compete with our competitors on loans, deposits and fee-and commission-based products and services. Such competition may materially and adversely affect our business and future prospects by, for example, reducing our market share in our principal products and services, reducing our fee and commission income, affecting the growth of our loan or deposit portfolios and their related products and services, and increasing competition for soliciting senior management talents and qualified professional personnel.

In addition to competition from other banks and financial institutions, we also face competition from other forms of investment alternatives in China. In recent years, financial disintermediation, which involves investors' moving funds out of commercial banks and other financial institutions, to direct investments, has increased in China due to the availability of new financial products, the further development of the capital markets, the diversification of customer demand and other factors. Our deposit customers may move their funds deposited with us to invest in stock, bonds and wealth management products, which may result in a decrease in our customer deposits, the most important source of funds available to us for our lending business, further impacting our net interest income. In addition, due to the development of the capital markets, we may face competition from direct corporate financing, such as the issuance of debt or equity securities in the domestic and international capital markets. If a substantial number of our customers choose alternative ways of financing to meet their funding needs, this may adversely affect our interest income. A decrease in the financing demand of our corporate customers could materially and adversely affect our business, financial condition or results of operations.

Moreover, China's traditional banking institutions are also facing new challenges from innovations in financial products and technology, such as online wealth management products, third party online payment platforms and Internet financing service platforms. According to CNNIC, the number of Online payment users in China increased from 474.5 million in 2016 to 854.3 million in 2020, representing a CAGR of 15.8%, similar to other commercial banks, we also face competition from other types of Internet finance. There can be no assurance that we will successfully meet the challenges from such Internet finance companies and, in the event that we were unable to effectively respond to the changes in the competition environment of the PRC banking industry, our business, financial condition or results of operations could be materially and adversely affected.

**The competition layout in the banking industry keeps evolving in line with advancement of information technology where the traditional banking institutions face intensified challenges in terms of electronic banking and internet finance.**

In recent years, with the continuous development and further penetration of internet technology, traditional banks are facing ever increasing challenges in respect of electronic banking capacities and the internet finance sector, both of which keep evolving. At present, the major financial services provided by China's Internet-based and Fintech-based financial service companies include online personal loans, third-party online and mobile payment, as well as online and mobile wealth management. China's commercial banks are facing the challenges with respect to products, technologies and customer experience. Leveraging their competitiveness in technology capacity, databases of customers' transaction behavior and/or different regulatory regimes, these enterprises proactively proceed with technology and business model innovation services to take over more and more of the bank value chain, including those core areas that are key source of banks' revenues. In addition, personal loan products provided by Internet-based financial service companies may result in decreased demand of retail banking customers for commercial banks' loans. More and more customers are inclined to access banking services through internet at their computers or mobile handsets instead of going to physical bank branches due to the convenience, efficiency and security of electronic and online banking. Furthermore, many technology giants and large-scale retailers managed to establish its own banking institutions upon obtaining approval, imposing a more direct and full-fledged competition against existing traditional banks. Please also refer to "Industry Overview — Industry Trends and Growth Drivers — Opportunities Arising from Financial Technologies."

Meanwhile, our business has geographical limitations. As of the Latest Practicable Date, our extensive branch network consisting 505 outlets in total in Guangdong Province and among which, 501 outlets were located in Dongguan. The financial services provided by the internet-based and Fintech-based financial service companies are virtual and not constrained by geography. Generally, the services can be launched nationwide and therefore their customer base is not limited by territorial boundaries. Competition from the Internet-based and Fintech-based financial service industry may materially and adversely affect our business, financial condition, results of operations and prospects.

**The PRC banking industry is highly regulated, therefore we are susceptible to changes in regulation and government policies.**

The PRC banking industry is highly regulated and our business could be directly affected by changes in the policies, laws and regulations relating to the PRC banking industry, such as those affecting the specific lines of business in which we operate, or the specific businesses for which we can charge fees, as well as changes in other governmental policies. We are subject to various regulatory requirements and guidelines set forth by the PRC regulatory authorities, which include but are not limited to MOF, NAO, PBoC, SAT, CBIRC, CSRC, SAFE and their respective local branches, particularly in Dongguan and Guangdong Province. Some of such regulatory authorities conduct periodic and *ad hoc* inspections, examinations and inquiries on our business operations and compliance with the laws, regulations and guidelines, and have the authority to impose sanctions, penalties or remediation actions. These laws, regulations and guidelines impose regulatory requirements on, among other things, banking products and services, market entry, opening of new branches or institutions, tax and accounting policy and pricing. CBIRC, as the primary banking industry regulator, has promulgated a series of banking regulations and guidelines aiming at improving the operations and risk management of Chinese commercial banks.

Many of the policies, laws and regulations governing the banking industry or the interpretation thereof may change in the future, and we may not be able to adapt to such changes on a timely basis or at all. For instance, in August 2015, PBoC eliminated the upper limit on interest rate for RMB-denominated time deposits with terms of over one year. In October 2015, PBoC eliminated the upper limit on the interest rate for RMB-denominated demand deposits and time deposits. In addition, since 2017, CBIRC, together with its predecessor CBRC, has promulgated a series of rules and regulations to enhance supervision and impose restrictions on various business operations of banks, including the rules and regulations on entrusted loans and cooperation between banks and trust companies. These changes are expected to intensify competition among PRC commercial banks and could materially and adversely affect our results of operations by reducing our net interest income. Failure to comply with new policies, laws and regulations may result in fines or restrictions on our business, which could materially and adversely affect our business, financial condition or results of operations.

**Further liberalization of interest rates, PBoC's adjustments to the benchmark interest rates, the ongoing reform of the LPR mechanism, the deposit insurance program and other regulatory changes in the PRC banking industry may materially and adversely affect our financial condition and results of operations.**

For the years ended December 31, 2018, 2019 and 2020 and for the three months ended March 31, 2020 and 2021, approximately 74.9%, 74.6%, 82.4%, 79.6% and 81.8% of our operating income was generated through our net interest income, which is in a gradual transition from floating with adjustments in the benchmark interest rates set by PBoC to being indexed to the developing the LPR mechanism. On October 25, 2013, PBoC announced the official operation of LPR collective quotation and releasing mechanism. The first nine quoting banks, including large commercial banks, will release the LPR quotations on each business day, quoting the LPR applicable to its high-grade clients. Designated to release LPR, the National Inter-bank Funding Centre will release the LPR quotation average rates of quoting banks after eliminating highest and lowest quotations, and calculating the weighted average of remaining quotations. In the preliminary period of operation, the mechanism published its one-year LPR. Official operation of new mechanism of LPR was expected to realize a smooth transfer for the pricing benchmark from being determined by PBoC to being determined by the market, laying regime foundation for promoting interest rate liberalization. In recent years, PBoC has adjusted the benchmark interest rates several times and gradually lifted various limitation on the interest rates, indicating an interest rate liberalization trend. For details, please see "Supervision and Regulation — Pricing of Products and Services — Interest Rates for Loans and Deposits".

Such liberalization trend may affect our financial condition and results of operations in different ways. Movements in PBoC benchmark interest rates could affect the average yield on our interest-earning assets to a different extent than the average cost on our interest-bearing liabilities which leads to a narrower net interest margin. The Deposit Insurance Regulation (《存款保險條例》), effective since May 1, 2015, requires banks to pay premiums for deposit insurance has also increased our operating costs. Accordingly, the competition among the PRC commercial banks may be intensified through their efforts to attract customers with more favorable interest rates.

Moreover, volatility in interest rates may adversely affect our cost of short-term borrowing, liquidity and value of assets. For instance, a significant increase in interest rates generally results in a significant decrease in the fair value of fixed income securities portfolio. In addition, the derivatives market in the PRC is still in the early stages of development. As a result, we may not be able to effectively hedge such market risks.

Therefore, if we fail to promptly diversify our businesses, adjust the mix of our assets and liabilities or change our pricing to effectively respond to further liberalization of interest rates, our financial condition and results of operations may be adversely affected.

**Change in the PRC interbank market liquidity, volatility in interest rates and the financial condition of other banks and other financial institutions could significantly increase our borrowing costs and materially and adversely affect our liquidity and financial condition.**

We utilize funding in the interbank market to satisfy some of our liquidity needs. As of March 31, 2021, our financial assets sold under repurchase agreements and deposits and placements from banks and other financial institutions, accounted for 8.7% of our total liabilities.

According to the *Notice on Regulating Interbank Businesses of Financial Institutions* (《關於規範金融機構同業業務的通知》) jointly issued by PBoC, former CBRC, CSRC, former CIRC and SAFE on April 24, 2014, the net balance of interbank lending of a commercial bank to a single incorporated financial institution (excluding interbank deposits for settlement purposes), after deducting assets with zero risk weight, shall not exceed 50% of its tier-one capital. The balance of interbank borrowing of a commercial bank shall not exceed one third of its total liabilities. We may not be able to acquire sufficient short-term funds from the interbank market at all times, and regulatory authorities may further impose restrictions on the interbank business and interbank borrowing. In addition, any significant changes in the liquidity and interest rate in the PRC interbank market could affect our financing costs. A market rate system based on SHIBOR has been developed for the PRC interbank market. However, due to the relatively short history of the PRC interbank market, there may be significant volatility in market interest rates, and there can be no assurance that SHIBOR could return to the normal range in the short term after irregular fluctuations in such rates in the future. Any significant volatility in interest rates on the interbank market may have a material and adverse effect on our cost of borrowing short-term funds and our liquidity. Moreover, severe volatility in market interest rates may also have a significant impact on the value of our assets. For instance, a significant increase in market interest rates may lead to a significant decrease in the fair value of our fixed income debt securities, which may materially and adversely affect our financial condition and results of operations.

In addition, changes in the financial condition of other banks and other financial institutions from which we have interests in their debts may materially and adversely affect our financial condition and results of operations.

**The rapid growth of the banking industry in China may not be sustainable.**

The PRC banking industry has experienced rapid growth along with China's economic development. Banks have historically been, and are likely to remain, the principal domestic financing channel for corporates and the primary choice for savings. We expect the banking industry in the PRC to maintain its growth as a result of the continued growth in the PRC economy and increases in household income, among other factors.

Notwithstanding the significant growth in the banking industry in China, it is uncertain whether the banking industry in China can sustain the current rates of growth. A slowdown in the growth of the PRC economy, other unfavorable macroeconomic developments and trends in China and other parts of the world could materially and adversely affect the banking industry in China. Due to the newly-accumulated risks caused by overcapacity, local government debts and overall economic slowdown, there can be no assurance that the banking industry in the PRC is free from systemic risks. The recent slowdown in China's economic growth has led to a rise in non-performing loans of the banking industry. In the event that we cannot adapt to such changes, our business, financial condition or results of operations could be materially and adversely affected.

**The effectiveness of our credit risk management is affected by the quality and scope of information available in China.**

Although national credit information databases developed by PBoC have been put into use, they are generally under-developed in China, and such databases are not able to provide complete credit information on certain credit applicants. Without complete, accurate and reliable information and until the full implementation and effective operation of comprehensive national credit databases with respect to corporate and individual borrowers, we must rely on other publicly available information and our internal resources, which may not be effective to assess the credit risk associated with a particular customer. Moreover, customary loan contracts in China may not contain the same types of financial and other covenants as other countries or regions, which would not allow us to effectively monitor changes to the credit standing of our customers in a timely manner. As a result, our ability to effectively manage our credit risk may be limited, which could materially and adversely affect our business, financial condition or results of operations.

**Investors of commercial banks, including, among other things, rural commercial banks, in China are subject to qualification requirement.**

Investments in commercial banks in China are subject to a number of restrictions. For instance, prior approval from the regulatory authorities for the PRC banking industry is required for any person or entity to hold 5.0% or more of the total capital or total shares of a commercial bank in China, unless otherwise required by the approval authorities. If a shareholder of a commercial bank in China increases its shareholding above this 5.0% threshold without obtaining prior approval from the regulatory authorities for the PRC banking industry, such shareholder may be subject to sanctions by the regulatory authorities for the PRC banking industry, which includes correction of such misconduct, confiscation of illegal gains or fines. In addition, under the PRC Company Law, we may not extend any loans that use our Shares as collateral. Moreover, pursuant to the *Notice on Enhanced Management of Pledge of Equity Interest in Commercial Banks* (《中國銀監會關於加強商業銀行股權質押管理的通知》) issued by CBRC and our Articles of Association, a Shareholder must notify our Board of Directors before pledging our Shares as collateral for itself or others. In addition, our Shareholders (especially the major shareholders) and our Directors designated by them are restricted from voting in Shareholders' general meetings and meetings of the Board of Directors, respectively, if such Shareholders fail to repay outstanding borrowings when due. Please also see "— Our Shareholders, including our H Shareholders, may be subject to voting restrictions in connection with their pledge of our shares." Changes in shareholding restrictions imposed by the PRC government or as provided for in our Articles of Association in the future may materially and adversely affect the value of your investment.

According to the *Interim Measures for Management of Commercial Bank Equity* (《商業銀行股權管理暫行辦法》) promulgated by CBRC, the predecessor of CBIRC, on January 5, 2018, no shareholder of a commercial bank may authorize any other person to or accept any other person's authorization to hold equity of a commercial bank. In the event that the shareholders of a commercial bank intend to transfer their equity, the shareholders shall inform the transferees to comply with the laws and regulations as well as requirements promulgated by CBRC. The same investor and its related parties and parties acting in concert shall comply with the shareholding percentage requirement of CBRC if they decide to invest in a commercial bank. If CBRC or its local offices take steps to control risks and take-overs due to material risk issues or material non-compliance of the commercial bank, shareholders shall actively cooperate with CBRC and its local offices as applicable to conduct risks controlling and other relevant actions. In addition, on December 26, 2019, CBIRC promulgated the *Implementing Measures for the Administrative Licensing Matters concerning Small and Medium-sized Rural Banking Institutions* (《農村中小銀行機構行政許可事項實施辦法》). Under such regulations, shareholders of rural financial institutions are subject to various restrictions. For instance, the total investment amount of a non-financial intuitional shareholders in rural commercial banks and their connected parties cannot exceed 10% of the share capital of the rural commercial banks being invested. Failure to comply with such requirements might lead to CBIRC imposing its regulatory measures on us or other regulatory and administrative actions against us.

**Our Shareholders, including our H Shareholders, may be subject to voting restrictions in connection with their pledge of our shares.**

To comply with the *Notice on Enhanced Management of Pledge of Equity Interest in Commercial Banks* (《中國銀監會關於加強商業銀行股權質押管理的通知》) issued by CBRC on November 14, 2013, our Articles of Association stipulates that Shareholders who have outstanding loans from us exceeding the audited net book value in previous year of the shares of our Bank they held are not permitted to pledge our Shares, and the voting rights of such Shareholders at general meetings and the voting rights of Directors appointed by such Shareholder (if any) at meetings of the Board shall be restricted if such Shareholders pledge 50.0% or more of their Shares. If a Shareholder who has representation on the Board of Directors or the Board of Supervisors, or directly, indirectly or jointly holds or controls more than 2% of our share capital or voting rights pledges his equity interests in us, they shall make a filing to the Board of Directors prior to the pledge. Such filing shall state the basic information of the pledge, including the reasons for the pledge, the number of shares involved, the term of pledge and the particulars of the pledgees. A shareholder who pledges his equity interest shall notify the Board of Directors in advance. For details, please see "Supervision and Regulation — Ownership and Shareholder Restrictions — Restrictions on Shareholders".

The PRC authority may issue more stringent rules and regulations to set restrictions or prohibitions against share pledges made by shareholders. Such regulatory authorities may also require us to impose further voting restrictions on our Shareholders, including our H Shareholders, in a manner deemed appropriate by such regulatory authorities which, in extreme cases, may involve suspension of the relevant Shareholders' voting rights.

**Our loan classification and provisioning policies may be different in certain respects from those applicable to banks in certain other countries or regions.**

We established a five-level loan classification system in accordance with the guidelines set forth by former CBRC. The five categories are normal, special mention, substandard, doubtful and loss. In making relevant assessments, we determine and recognize provisions by using the concept of impairment under IFRS 9 in determining provisions. We are required to apply a new expected credit loss impairment model under IFRS 9, which uses more forward-looking information instead of objective evidence of impairment as a precondition for recognizing credit losses. Although our loan classification criteria is in compliance with the guidelines set forth by the CBIRC, certain aspects of our loan classification criteria may not be the same as those adopted by other PRC commercial banks. For details on our loan classification criteria, please see "Assets and Liabilities — Assets — Loans and Advances to Customers — Asset Quality of Our Loan Portfolio — Loan Classification Criteria". As a result, our loan classification as well as our impairment allowance, as determined under our loan classification and provisioning policies, may differ from those that could be reported if we were incorporated in those countries or regions.

**The applicable PRC regulations impose certain limitations on the products in which we may invest and our ability to seek higher investment returns and diversify our investment portfolio is limited.**

Investment by commercial banks in China is subject to a number of restrictions. The investment assets of PRC commercial banks traditionally consist primarily of debt securities issued by MOF, PBoC, PRC policy banks, PRC commercial banks and corporates. Investment in debt securities carries certain inherent risks, including but not limited to credit risk, interest risk and liquidity risk. In recent years, additional investment products have been introduced to the market, such as trust plans, wealth management products and fund products issued by financial institutions, investment funds, asset-backed securities, and beneficiary certificates, as a result of changes to the regulatory regimes and market conditions. However, investments in equity products by commercial banks are still subject to strict restrictions. Restrictions on the ability to diversify the investment portfolio of commercial banks in China, including us, may limit our ability to seek optimal returns.

**Our business, financial condition and results of operations may be adversely affected by negative media coverage of the banking industry in the PRC.**

The banking industry in the PRC continues to be covered extensively by various news media. Historically, incidents of fraud and issues relating to high levels of NPL, loan quality, capital adequacy, solvency, internal controls and risk management of individual banking institutions have been reported by the media. Negative coverage, whether or not accurate and whether or not applicable to us, could have a material adverse effect on our reputation and, consequently, may undermine the confidence of depositors and investors in us. As a result, our business, financial condition and results of operations may be materially and adversely affected.

## RISKS RELATING TO THE PRC

**China's economic, political and social conditions, government policies, as well as the global economy may continue to affect our business.**

All of our businesses, assets, operations and revenues are located in or derived from our operations in the PRC and, as a result, our business, financial condition or results of operations are subject, to a significant degree, to the economic, political, social and regulatory environment in the PRC.

Our performance has been and will continue to be affected by China's economy, which in turn is influenced by the global economy. The uncertainties relating to the global economy as well as the political environment in various regions of the world will continue to impact China's economic growth.

We are unable to predict all the risks and uncertainties that we face as a result of current economic, political, social and regulatory developments and many of these risks are beyond our control. All such factors may adversely affect our business and operations as well as our financial performance.

**The legal protections available to the investors under the PRC legal system may be limited.**

We are incorporated under the laws of the PRC. The PRC legal system is based on written statutes. Prior court decisions may be adduced for reference but have limited precedential value. Since the late 1970s, the PRC government has promulgated laws and regulations dealing with such economic matters as the issuance and trading of securities, shareholders' rights, foreign investment, corporate organization and governance, commerce, taxation and trade, with a view towards developing a comprehensive system of commercial law. However, as these laws and regulations are relatively new and the development of products, investment instruments and environment in the PRC banking industry continue to evolve, the effect of these laws and regulations on the rights and obligations of the parties involved may involve uncertainty. As a result, the legal protections available to you under the PRC legal system may be limited.

**You may experience difficulties in effecting service of legal process and enforcing judgments against us and our management.**

We are a joint stock company incorporated under the laws of the PRC with limited liability, and substantially all of our assets are located in the PRC. In addition, a majority of our Directors, Supervisors and all of our senior management personnel reside within the PRC. As a result, it may not be possible to effect service of process within the United States or elsewhere outside the PRC upon us or most of our Directors, Supervisors and senior management personnel, including with respect to matters arising under the U.S. federal securities laws or applicable state securities laws. Moreover, the PRC does not have treaties providing for the reciprocal enforcement of judgments of courts with the United States, the United Kingdom, Japan or many other countries. In addition, Hong Kong has no arrangement for the reciprocal enforcement of judgments with the United States. As a result, recognition and enforcement in the PRC or Hong Kong of judgments of a court obtained in the United States and any of the other jurisdictions mentioned above may be difficult or impossible.

In 2006, the Supreme People's Court of the PRC and the government of the Hong Kong Special Administrative Region entered into the *Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by Courts of the Mainland and the Hong Kong Special Administration Region Pursuant to Choice of Court Agreements between Parties Concerned* (《關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排》) (the "**2006 Arrangement**"). Under the 2006 Arrangement, where any designated PRC court or any designated Hong Kong court has made an enforceable final judgment requiring payment of money in a civil or commercial case pursuant to a choice of court agreement in writing, any party concerned may apply to the relevant PRC court or Hong Kong court for recognition and enforcement of the judgment. A choice of court agreement in writing is defined as any agreement in writing entered into between parties after the effective date of the 2006 Arrangement in which a Hong Kong court or a PRC court is expressly selected as the court having sole jurisdiction for the dispute. Therefore, it is not possible to enforce a judgment rendered by a Hong Kong court in the PRC if the parties in dispute have not agreed to enter into a choice of court agreement in writing. In addition, the 2006 Arrangement has expressly provided for "enforceable final judgment", "specific legal relationship" and "written form". A final judgment that does not comply with the 2006 Arrangement may not be recognized and enforced in a PRC court and we cannot assure you that a final judgment that complies with the 2006 Arrangement can be recognized and enforced in a PRC court.

On January 18, 2019, the Supreme People's Court of the People's Republic of China and the Department of Justice under the Government of the Hong Kong Special Administrative Region signed the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region (the "**2019 Arrangement**"). The 2019 Arrangement, for the reciprocal recognition and enforcement of judgments in civil and commercial matters between the courts in mainland China and those in the Hong Kong Special Administrative Region, stipulates the scope and particulars of judgments, the procedures and ways of the application for recognition or enforcement, the review of the jurisdiction of the court that issued the original judgment, the circumstances where the recognition and enforcement of a judgment shall be refused, and the approaches towards remedies, among other things. Although the 2019 Arrangement has been signed, its effective date has yet to be announced. Therefore, there are still uncertainties about the outcomes and effectiveness of enforcement or recognition of judgments under the 2019 Arrangement.

**We are subject to PRC government controls on currency conversion, and the fluctuation of the RMB exchange rate may materially and adversely affect our business and our ability to pay dividends to our H Shareholders.**

Substantially all of our revenue is denominated in RMB, which is currently not a fully freely convertible currency. A portion of our revenues must be converted into other currencies in order to meet our foreign currency obligations. For instance, we need to obtain foreign currency to make payments of declared dividends, if any, on our H Shares.

Under China's existing laws and regulations on foreign exchange, following the completion of the Global Offering, we will be able to make dividend payments in foreign currencies by complying with certain procedural requirements. We review the authenticity and compliance of such payment according to relevant regulations. In the future, the PRC government may, at its discretion, take measures to restrict access to foreign currencies for capital account and current account transactions under certain circumstances. As a result, we may not be able to pay dividends in foreign currencies to our H Shareholders.

The value of the RMB against the U.S. dollar and other currencies fluctuates from time to time and is affected by a number of factors, such as changes in China's and international political and economic conditions and the fiscal and foreign exchange policies prescribed by the PRC government. On July 21, 2005, the PRC government adopted a more flexible managed floating exchange rate system to allow the value of the RMB to fluctuate within a regulated band that is based on market supply and demand and with reference to a basket of currencies. The PRC government has since introduced further changes to the exchange rate system in 2012 and 2014. On August 11, 2015, PBoC announced to improve the central parity quotations of RMB against the U.S. dollar by authorizing market-makers to provide central parity quotations to the China Foreign Exchange Trading Centre with reference to the interbank foreign exchange market closing rate of the previous day, the supply and demand for foreign exchange as well as changes in major international currency exchange rates. On the same day, the central parity of RMB against the U.S. dollar depreciated by nearly 2% as compared to August 10, 2015, and further depreciated by nearly 1.6% on August 12, 2015 as compared to August 11, 2015. On December 31, 2016, the International Monetary Fund announced that RMB had joined its Special Drawing Rights currency market. In 2016, the value of RMB depreciated approximately 6.8% against the U.S. dollar. In

2017, the value of RMB appreciated approximately 5.8% against the U.S. dollar. In 2018, the value of RMB depreciated approximately 5.0% against the U.S. dollar. In 2019, the value of RMB depreciated approximately 1.7% against the U.S. dollar. For the year ended December 31, 2020, the value of RMB appreciated approximately 6.5% against U.S. dollar. For the three months ended March 31, 2021, the value of RMB depreciated approximately 0.7% against the U.S. dollar. With the development of foreign exchange market and progress towards interest rate liberalization and RMB internationalization, the PRC government may in the future announce further changes to the exchange rate system. It is difficult to predict how market forces or the PRC or U.S. governmental policies, including any US interest rate adjustments by the Federal Reserve of the United States, may impact the exchange rate between RMB and the U.S. dollar in the future.

We believe our current exposure to risk relating to fluctuations in exchange rates is limited. As of March 31, 2021, approximately RMB1,209.0 million, 0.2% of our assets and approximately RMB1,200.7 million, 0.2% of our liabilities were denominated in foreign currencies. However, our foreign currency business may expand and, therefore, any appreciation of the RMB against the U.S. dollar or any other foreign currencies may result in a decrease in the value of our foreign currency-denominated assets. Conversely, any devaluation of the RMB may adversely affect the value of, and any dividends payable on, our H Shares in foreign currencies. As the instruments available for us to hedge our exchange rate risk at reasonable cost are limited, we cannot assure you that we will be able to fully hedge our exchange rate risk exposure relating to our foreign currency- denominated assets. Any appreciation of the RMB against the U.S. dollar or any other foreign currencies may materially and adversely affect the financial conditions of certain of our customers, particularly those deriving substantial income from export related businesses. As a result, their ability to perform their obligations to repay their debt to us may be adversely impacted. Moreover, we are also currently required to obtain approval from SAFE before converting large amounts of foreign currencies into RMB. All of these factors could adversely affect our financial condition and results of operations.

**Our H Shareholders may be subject to PRC taxation on dividends paid by us and gains realized through their disposal of our H Shares.**

Under applicable PRC tax laws, regulations and statutory documents, non-PRC resident individuals and enterprises are subject to different tax obligations with respect to dividends received from us or gains realized upon the sale or other disposition of our H Shares. Non-PRC domestic resident individuals are generally subject to PRC individual income tax under the *Individual Income Tax Law of the PRC* (《中華人民共和國個人所得稅法》) at a rate of 20% unless specifically exempted by the tax authority of the State Council or reduced or eliminated by an applicable tax treaty. We are required to withhold such tax from dividend payments. According to relevant applicable regulations, generally, domestic non-foreign-invested enterprises issuing shares in Hong Kong may, when distributing dividends, withhold individual income tax at the rate of 10%. There remains uncertainty as to whether gains realized upon disposal of H Shares by non-PRC domestic resident individuals are subject to PRC individual income tax.

Non-PRC resident enterprises that do not have establishments or premises in the PRC, or have establishments or premises in the PRC but their income is not related to such establishments or premises are subject to PRC enterprise income tax at the rate of 10% on dividends received from PRC companies and gains realized upon disposal of equity interests in the PRC companies pursuant to the *Enterprise Income Tax Law of the PRC* (《中華人民共和國企業所得稅法》) and other applicable PRC tax regulations and statutory documents, which can be reduced or eliminated under special arrangements or applicable treaties between China and the jurisdiction where the non-resident enterprise resides. As of the Latest Practicable Date, there are no specific rules about how to levy tax on gains realized by our non-resident enterprise H Shareholders through the sale or transfer by other means of H Shares.

There remains uncertainty as to how the PRC tax laws, regulations and statutory documents are interpreted and implemented by the PRC tax authorities. PRC tax laws, regulations and statutory documents may also change. If there are any unfavorable changes to applicable tax laws or interpretations or application with respect to such laws, the value of your investment in our H Shares may be materially affected.

For details, please see Appendix VI — "Taxation and Foreign Exchange" to this prospectus.

**Payment of dividends is subject to restrictions under PRC laws.**

Under PRC law and our Articles of Association, dividends may only be paid only out of distributable profits after the listing. Our profit distribution plan is subject to approval by a Shareholders' general meeting. In addition to the financial statements prepared in accordance with PRC accounting standards and regulations, we will also prepare financial statements in accordance with IFRS or the accounting standards of the jurisdiction in which we are listed. After the Listing, profit after tax available for distribution for a particular financial year shall be the lower of profit after tax as shown in the financial statements prepared under the accounting standards mentioned above. We are prohibited from paying dividends for a given year out of our profit after tax to our Shareholders in proportion to their respective shareholdings before making up any accumulated losses of previous years and making appropriations to the statutory surplus reserve and general reserve as well as discretionary reserve as approved by our Shareholders' meeting. As a result, we may not have distributable profits to make dividend distributions to our Shareholders, including in respect of periods where we have recorded an accounting profit. Any distributable profits not distributed in a given year may be retained and available for distribution in subsequent years. In addition, CBIRC has discretion to restrict dividend payments and other distributions by any bank that has failed to meet statutory capital adequacy ratio requirements or that has violated certain other PRC banking regulations. For details, please see "Supervision and Regulation — Supervision over Capital Adequacy — CBIRC's Supervision of Capital Adequacy".

**RISKS RELATING TO THE GLOBAL OFFERING**

**There has been no prior public market for our H Shares, an active trading market for our H Shares may not develop, and their trading price may fluctuate significantly.**

Prior to the completion of the Global Offering, no public market has existed for our H Shares. The initial Offer Price range to the public for our H Shares is the result of negotiations between us on behalf of ourselves and the Joint Global Coordinators on behalf of the Underwriters, and the Offer Price may differ significantly from the market price for our H Shares following the Global Offering. There can be no assurance that an active trading market for our H Shares will develop following the Global Offering or, if it does develop, that it will be sustained or that the market price for our H Shares will not decline below the initial Offer Price.

**The trading volume and market price of our H Shares may be volatile, which could result in substantial losses for investors who purchase our H Shares in the Global Offering.**

The price and trading volume of our H Shares may be highly volatile. Factors, some of which are beyond our control, such as variations in our revenue, earnings and cash flow, changes in our pricing policy as a result of competition, the emergence of new technologies, strategic alliances or acquisitions, the addition or departure of key personnel, changes in ratings by financial analysts and credit rating agencies, litigation or fluctuations in the market prices and demand for our products or services could cause large and sudden changes in the volume and price at which our H Shares will trade. In addition, the Hong Kong Stock Exchange and other securities markets have, from time to time, experienced significant price and volume fluctuations that are not related to the operating performance of any particular company. These fluctuations may also materially and adversely affect the market price of our H Shares.

**Future offerings, sales, perceived sales or conversion of substantial amounts of Shares in the public market (including any future conversion of unlisted Shares into H Shares) could materially and adversely affect the prevailing market price of our H Shares and our ability to raise additional capital in the future, or could result in dilution in shareholding of our H Shareholders.**

The market price of our H Shares could decline as a result of future offerings or sales of substantial amounts of our Shares or other securities relating to our Shares in the public market, or the issuance of new H Shares or other securities relating to our Shares or the perception that such sales or issuances may occur. Future sales, or perceived sales, of substantial amounts of our securities, including any future offerings, could materially and adversely affect the prevailing market price of our H Shares and our ability to raise capital in the future at a time and at a price which we deem appropriate. In addition, our Shareholders would experience a dilution in their holdings upon the issuance of additional securities for any purpose. If additional funds were raised through our issuance of new equity or equity-linked securities other than on a pro-rata basis to existing Shareholders, the ownership percentage of such Shareholders could be reduced and such new securities might confer rights and privileges that take priority over those conferred by the H Shares.

Upon the completion of the Global Offering, we will have two classes of ordinary shares, H Shares and Domestic Shares. All of our Domestic Shares are unlisted Shares which are not listed or traded on any stock exchange. Assuming the Over-allotment Option is not exercised, there will be 1,148,091,000 H Shares representing 16.67% of our enlarged share capital and 5,740,454,510 Domestic Shares representing 83.33% of our enlarged share capital. Our unlisted Shares may be converted into H Shares, and such converted H Shares may be listed or traded on an overseas stock exchange, provided that prior to the conversion and trading of such converted Shares, any requisite internal approval processes shall have been duly completed and the approval from the relevant regulatory authorities, including CSRC, shall have been obtained in accordance with the regulations of the State Council's securities regulatory authorities as well as regulations, requirements and procedures of relevant overseas stock exchanges. The listing of such converted Shares on the Hong Kong Stock Exchange will also require the approval by the Hong Kong Stock Exchange. No class shareholder vote is required for the conversion of such Shares and the listing and trading of the converted Shares on an overseas stock exchange. Future sales, or perceived sales, of the converted Shares may adversely affect the trading price of H Shares.

**Because the Offer Price of our H Shares may be higher than our net tangible book value per Share, purchasers of our H Shares in the Global Offering will experience immediate dilution upon such purchase.**

The Offer Price of our H Shares may be higher than our net tangible book value per Share of the outstanding Shares issued to our existing Shareholders as of March 31, 2021. Therefore, purchasers of our H Shares in the Global Offering will experience an immediate dilution in pro forma net tangible book value and our existing Shareholders will receive an increase in the pro forma adjusted consolidated net tangible asset value per Share of their Shares. In addition, our H Shareholders may experience a further dilution of their shareholding percentage if the Joint Global Coordinators on behalf of the International Underwriters exercise the Over-allotment Option or if we obtain additional capital in the future through equity offerings.

**Dividends distributed in the past may not be indicative of our dividend policy in the future.**

In 2018, 2019 and 2020, we declared and distributed cash dividends of RMB1,308.8 million, RMB1,366.2 million and RMB1,492.5 million for the previous years ended December 31, 2017, 2018 and 2019, respectively. As of the Latest Practicable Date, save for the declaration of special dividend of approximately RMB861.1 million, please see "Financial Information — Dividend — Special Dividend", there was no declared but unpaid dividends. Dividends paid in prior periods may not be indicative of future dividend payments. We cannot guarantee when, if and in what form or size dividends will be paid in the future. The determination of whether to pay a dividend and in what amount is based on our results of operations, cash flows, financial condition, capital adequacy ratios, future business prospects, statutory and regulatory restrictions on the payment of dividends by us and other factors that our Board of Directors deem relevant. We may not have sufficient or any profits for dividend distributions in the future, even if our financial statements indicate that our operations have been profitable. Please see "Financial Information — Dividend — Dividend Policy".

**We cannot assure you of the accuracy of facts, forecasts and statistics derived from official government publications contained in this prospectus with respect to China, its economy or its banking industry.**

Facts, forecasts and statistics in this prospectus relating to the PRC, the PRC economy and the PRC and global banking industries, including our market share information, are derived from various governmental sources and information published by various government authorities and departments, such as PBoC, CBIRC, the International Monetary Fund, the Statistics Bureaus of Guangdong Province and other provinces, or other public sources. We believe that these sources of information are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. The information has not been independently verified by us, the Joint Sponsors, the Joint Global Coordinator, the Joint Bookrunners, the Joint Lead Managers or their respective directors or any other person involved in the Global Offering, and no representation is given as to its accuracy. In addition, these facts, forecasts and statistics may not be consistent with information available from other sources, and may not be complete or up to date. As a result, you should not place undue reliance on such information.

**Our H Shareholders are exposed to the risk that the price of our H Shares could drop during the potential time gap between pricing and trading of our H Shares.**

Our H Shares will not commence trading on the Hong Kong Stock Exchange until such H Shares are delivered, which is expected to be several Business Days after the date on which the Offer Price of our H Shares is determined. As a result, investors may not be able to sell or otherwise deal in our H Shares during that gap period. As such, our H Shareholders are exposed to the risk that the price of our H Shares could drop before trading begins as a result of adverse market conditions or other adverse developments that could occur during such gap period.

**U.S. FATCA withholding tax may be imposed on payments on the H Shares.**

The United States has enacted rules, commonly referred to as "FATCA", that generally impose a withholding regime with respect to "withholdable payments", generally U.S. source payments of dividends and interest and, beginning in 2019, gross proceeds from the disposition of property that can produce U.S. source payments, and, in the future, may impose such withholding on "foreign passthru payments" made by a "foreign financial institution" (an "**FFI**"), unless such FFI complies with certain diligence and reporting requirements. Under current guidance, the term "foreign passthru payment" is not defined and it is therefore not clear whether or to what extent payments on the H Shares would be considered foreign passthru payments. Withholding on foreign passthru payments would not be required with respect to payments on the H Shares made before January 1, 2019. Beginning with payments made after the later of January 1, 2019 and the date that is six months after the date on which final regulations defining the term "foreign passthru payments" are published in the U.S. Federal Register, an FFI may be required to withhold under FATCA in respect of "foreign passthru payments" made to other FFIs that are not participating FFIs or otherwise exempt from or in deemed compliance with FATCA or to persons that are account holders of such FFI that fail to provide information sufficient to determine whether such person is exempt from FATCA withholding. The United States has entered into an intergovernmental agreement (an "**IGA**") with Hong Kong (the "**Hong Kong IGA**"), and has agreed in substance with the PRC to an IGA (the "**PRC IGA**"), which potentially modifies the FATCA withholding regime described above. Under the FATCA rules and the IGAs, we and our subsidiaries that are treated as FFIs will be subject to the diligence and reporting obligations under FATCA or an applicable IGA. In order to avoid the withholding regime described above, we and each of our subsidiaries intend to comply with the diligence and reporting requirements under FATCA in accordance with relevant laws and regulations, which may affect how we structure our operations and conduct our business. It is not yet clear how the Hong Kong IGA and the PRC IGA will address foreign passthru payments.

Although final regulations defining the term "foreign passthru payments" have not yet been published in the U.S. Federal Register, we do not expect that payments we make will be considered foreign passthru payments. Therefore, we do not expect that we will be required to withhold any amount in respect of FATCA from distributions that we make on the H shares. However, a financial institution through which payments are made may be required to withhold under FATCA if such intermediary is not exempt from FATCA withholding (including pursuant to the terms of any applicable IGA). Prospective investors in the H Shares should consult their tax advisors regarding the potential impact of FATCA, the PRC IGA, the Hong Kong IGA and any non-U.S. legislation implementing FATCA, on their investment in the Shares.

**Prospective investors should rely only on this prospectus, and not place any reliance on any information contained in press articles or other media, in making their investment decision.**

We have not authorized anyone to provide prospective investors with information that is not contained in, or is different from what is contained in, this prospectus. Prior or subsequent to the publication of this prospectus, there has been press and media coverage regarding us and the Global Offering, in addition to marketing materials published by us in compliance with the Listing Rules. We have not authorized any such press and media reports, and the financial information, financial projections, valuations and other information purportedly about us contained in such unauthorized press and media coverage may be untrue and may not reflect what is disclosed in this prospectus. We make no representation as to the appropriateness, accuracy, completeness, or reliability of any such information or publication, and accordingly do not accept any responsibility for any such press or media coverage or the inaccuracy or incompleteness of any such information. To the extent that any such information appearing in the press and media is inconsistent or conflicts with the information contained in this prospectus, we disclaim it, and accordingly prospective investors should not rely on any such information. In making their decision as to whether to purchase our H Shares, prospective investors should rely only on the information included in this prospectus and the Green Application Forms.

## WAIVER IN RELATION TO HONG KONG FINANCIAL DISCLOSURE REQUIREMENTS

Rule 4.10 of the Listing Rules states that the information to be disclosed in respect of Rules 4.04 to 4.09 of the Listing Rules must be in accordance with best practice which is at least that required to be disclosed in respect of those specific matters in the accounts of a company under the Hong Kong Financial Reporting Standards, IFRS or China Accounting Standards for Business Enterprises in the case of a PRC issuer that has adopted China Accounting Standards for Business Enterprises and, in the case of banking companies, the *Guideline on the Application of the Banking (Disclosure) Rules* issued by the HKMA.

As our Group is engaged in banking activities, the financial information to be disclosed in respect of Rules 4.04 to 4.09 of the Listing Rules, including those disclosed in this prospectus, should include information that is required to be disclosed under the Banking (Disclosure) Rules.

We are currently unable to fully comply with the disclosure requirements under the Banking (Disclosure) Rules for the reasons described below. We believe that the financial disclosure requirements that we are unable to comply with are immaterial to potential investors of the Global Offering.

| Section no. | Disclosure requirement under the Banking (Disclosure) Rules | Reason for a waiver in relation to the disclosure requirement | Proposal for disclosure | Expected timing for full compliance |
|---|---|---|---|---|
| 99 | Sector information on loans and advances to customers | For our Group, all loans and advances to customers are used in the PRC instead of in Hong Kong and we are subject to the supervision of the CBIRC and maintain a breakdown of loans and advances to customers by industry sector based on the *Industrial classification for national economic activities* (《國民經濟行業分類》) (e.g. loans are categorized into corporate loans and personal loans which are further classified into detailed sub-categories by industry/nature), in our loans system for the purpose of filing returns to the CBIRC. | The loans and advances to customers by industry sectors in accordance with our management reports based on the CBIRC classification, which is set out in Note 42.1.6(a) to the Accountant's Report in Appendix I to this prospectus.<br><br>We consider that the current disclosure addressed the disclosure considerations of the HKMA. | N/A |

| Section no. | Disclosure requirement under the Banking (Disclosure) Rules | Reason for a waiver in relation to the disclosure requirement | Proposal for disclosure | Expected timing for full compliance |
|---|---|---|---|---|
| 102 | An authorized institution shall disclose its non-HKD currency exposures which arise from trading, non-trading and structural positions in accordance with the return relating to non-HKD currency positions it submitted to the HKMA pursuant to section 63 of the Banking Ordinance in respect of the annual reporting period | Our Group's accounts are prepared and denominated in RMB, which means that we only disclose non-RMB currency exposures instead of non-HKD currency exposures. | The non-RMB currency exposures of our Group, which is set out in Note 42.2.4 to the Accountant's Report in Appendix I to this prospectus.<br><br>We consider that the current disclosure addressed the disclosure considerations of the HKMA. | N/A |
| 16M | Additional annual disclosure to be made by an authorized institution using the standardized (credit risk) approach (STC approach) to calculate its credit risk capital requirements for non-securitization exposures | The computation basis for risks of our Group is based on the requirements set out in the *Rules Governing Capital Management of Commercial Banks (Provisional)* (商業銀行資本管理辦法(試行)) issued by the CBRC. | Information on capital structure and adequacy level in accordance with the disclosure requirements of CBIRC.<br><br>We believe that these requirements result in disclosure similar to those as required under the Banking (Disclosure) Rules. | N/A |

Save for the above, as a financial institution incorporated and based in the PRC, we are required to comply with the regulatory requirements issued by PBoC and CBIRC. Certain provisions of the Banking (Disclosure) Rules require disclosure in respect of our capital structure, capital base (in particular, relating to our level of capital adequacy), cross-border claims, liquidity ratios, PRC non-bank exposures and credit risks. We have maintained and compiled data relating to these matters in accordance with the regulatory requirements of PBoC and CBIRC. We believe that the regulatory requirements of PBoC and CBIRC attempt to address similar disclosure considerations as those required under the Banking (Disclosure) Rules, and the differences between the disclosure requirements under the two regulatory regimes are immaterial.

If we attempt to comply with such requirements under the Banking (Disclosure) Rules in parallel with the regulatory requirements of PBoC and CBIRC, we would be required to carry out additional work to collect and/or compile similar information already required and maintained in accordance with the regulatory requirements of PBoC and CBIRC. Therefore, we propose to disclose information in accordance with the regulatory requirements of PBoC and CBIRC instead of strictly following the disclosure regime provided for under the Banking (Disclosure) Rules.

We are of the view that this prospectus contains sufficient information for investors to make informed investment decision notwithstanding the differences between the regulatory requirements of PBoC and CBIRC on the one hand, and the disclosure requirements under the Banking (Disclosure) Rules on the other hand. The Joint Sponsors concur with the view of the Bank set out above.

Based on the above, we have applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with the requirements under Rule 4.10 of the Listing Rules, such that we will not fully comply with the requirements in respect of financial disclosures provided for under the Banking (Disclosure) Rules on the condition that we provide alternative disclosure in accordance with the regulatory requirements of PBoC and CBIRC.

**WAIVER IN RELATION TO MANAGEMENT PRESENCE**

Pursuant to Rules 8.12 and 19A.15 of the Listing Rules, we must have a sufficient management presence in Hong Kong. This normally means that at least two of our executive Directors must be ordinarily resident in Hong Kong. Since our head office, all branches, sub-branches, subsidiaries and principal operations are in the PRC and we do not have any substantial business activity or operation in Hong Kong and currently all of our executive Directors and senior management ordinarily reside, and manage our Group, in the PRC, we do not, and, in the foreseeable future, will not have sufficient management presence in Hong Kong and will not be able to satisfy the requirements under Rules 8.12 and 19A.15 of the Listing Rules.

Accordingly, we have applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with the requirements under Rules 8.12 and 19A.15 of the Listing Rules on the condition of the implementation of the following arrangements, which are in line with the requirements under guidance letter HKEx-GL9-09 of the Hong Kong Stock Exchange, for maintaining regular and effective communication with the Hong Kong Stock Exchange:

(a) our Bank has appointed Mr. Ye Jianguang, our executive Director and joint company secretary, and Mr. Wong Wai Chiu, our joint company secretary, as the authorized representatives of our Bank in accordance with Rule 3.05 of the Listing Rules with effect from the Listing Date, who will act as the principal channel of communication between the Hong Kong Stock Exchange and our Bank and will be readily contactable by telephone and e-mail;

(b) each Director has provided his/her mobile phone number, office phone number and email address to the authorized representatives of our Bank and the authorized representatives of our Bank would be able to contact all Directors promptly at all time as and when the Hong Kong Stock Exchange wishes to contact our Directors for any matters;

(c) each of our Directors who does not have the right of abode in Hong Kong possesses or is able to apply for valid travel documents to visit Hong Kong and is able to meet with the Hong Kong Stock Exchange within a reasonable period of time;

(d) in accordance with Rules 3A.19 and 19A.05 of the Listing Rules, we have appointed ICBC International Capital Limited as our compliance advisor who will serve as an additional channel of communication with the Hong Kong Stock Exchange for the period from the Listing Date to the date on which our Bank complies with Rule 13.46 of the Listing Rules in respect of our financial results for the first full financial year commencing after the Listing and the compliance advisor will have access at all times to the authorized representatives of our Bank and our Directors to ensure that it is in a position to provide prompt responses to any enquiries or requests from the Hong Kong Stock Exchange in relation to our Bank; and

(e) the mobile phone numbers, office phone numbers, e-mail addresses and fax numbers (if available) of each of our Directors will be provided to the Hong Kong Stock Exchange in compliance with Rule 3.20 of the Listing Rules.

**WAIVER IN RELATION TO COMPANY SECRETARIES**

Pursuant to Rules 3.28 and 8.17 of the Listing Rules, our company secretary must be an individual who, by virtue of his/her academic or professional qualifications or relevant experience, is, in the opinion of the Hong Kong Stock Exchange, capable of discharging the functions of company secretary.

The Hong Kong Stock Exchange considers the following academic or professional qualifications to be acceptable:

(i) a member of The Hong Kong Institute of Chartered Secretaries;

(ii) a solicitor or barrister as defined in the Legal Practitioners Ordinance (Chapter 159 of the Laws of Hong Kong); or

(iii) a certified public accountant as defined in the Professional Accountants Ordinance (Chapter 50 of the Laws of Hong Kong).

In assessing "relevant experience", the Hong Kong Stock Exchange will consider the followings of the individual:

(i) length of employment with the issuer and other issuers and the roles played;

(ii) familiarity with the Listing Rules and other relevant law and regulations including the SFO, Companies Ordinance, Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Takeovers Code;

(iii) relevant training taken and/or to be taken in addition to the minimum requirement under Rule 3.29 of the Listing Rules; and

(iv) professional qualifications in other jurisdictions.

Our Bank has appointed Mr. Ye Jianguang and Mr. Wong Wai Chiu as the joint company secretaries of our Bank. Mr. Ye has worked for our Bank for over 25 years (including the period when Mr. Ye worked for the predecessor of our Bank, Dongguan Rural Credit Cooperatives Association) since 1994 other than temporarily left our Bank and worked for Guangdong Province Rural Credit Cooperatives Association* (廣東省農村信用社聯合社) between December 2014 to August 2016 and has been appointed as the vice president and an executive Director of our Bank since 2017 and 2018, respectively. Accordingly Mr. Ye is familiar with the operation of our Bank as well as the administrative arrangement of our Board of Directors and has close working relationship with other Directors and management of our Bank to perform the function of a company secretary and to take the necessary actions in an effective and efficient manner. In addition, Mr. Ye is more familiar with the relevant PRC laws and regulations than a professional company secretarial service provider in Hong Kong given his over 27 years of experience in the banking industry in the PRC. For more details on Mr. Ye's biography, please see "Directors, Supervisors and Senior Management — Directors".

However, as Mr. Ye Jianguang does not possess the aforementioned academic or professional qualifications, our Bank has appointed Mr. Wong Wai Chiu who is a fellow of The Hong Kong Chartered Governance Institute (formerly known as The Hong Kong Institute of Chartered Secretaries), to be the other joint company secretary of our Bank and will work closely with, and provide assistance to, Mr. Ye in the discharge of his duties as a company secretary of our Bank for an initial period of three years from the Listing Date. During such period, Mr. Wong will inform Mr. Ye on a timely basis of the amendment or supplement to the Listing Rules and any new or amended Hong Kong laws and regulations relevant to us, and provide Mr. Ye with training on matters relating to our corporate governance and the latest changes to the applicable Hong Kong laws and regulations and the Listing Rules upon our request. For more details on Mr. Wong's biography, please see "Directors, Supervisors and Senior Management — Joint Company Secretaries". In addition, Mr. Ye will take no less than 15 hours of relevant professional training in each financial year in compliance with Rule 3.29 of the Listing Rules.

Before the end of the three-year period, we will conduct an evaluation to determine whether Mr. Ye, having had the benefit of Mr. Wong's assistance for three years, would then have acquired the relevant experience required under Rule 3.28 of the Listing Rules, or, alternatively, appoint a person who fulfills the requirements under Rules 3.28 of the Listing Rules as the company secretary of our Bank.

Accordingly, we have applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with the requirements under Rule 3.28 of the Listing Rules for a period of three years from the Listing Date and Rule 8.17 of the Listing Rules in respect of Mr. Ye's appointment as one of the joint company secretaries of our Bank on the conditions that:

(a) Mr. Ye shall be assisted by a person who possesses the qualification or experience as required under Rule 3.28 of the Listing Rules and is appointed as a joint company secretary of our Bank throughout the waiver period; and

(b) the waiver can be revoked if there are material breaches of the Listing Rules by our Bank.

**WAIVER IN RELATION TO SUBSCRIPTION OF H SHARES BY EXISTING SHAREHOLDERS**

Pursuant to Rule 10.04 of the Listing Rules, a person who is an existing shareholder of the issuer may only subscribe for or purchase any securities for which listing is sought which are being marketed by or on behalf of a new applicant either in his or its own name or through nominees if the conditions in Rules 10.03(1) and (2) of the Listing Rules are fulfilled.

The conditions in Rules 10.03(1) and (2) of the Listing Rules are: (i) no securities are offered to the existing shareholders on a preferential basis and no preferential treatment is given to them in the allocation of the securities; and (ii) the minimum prescribed percentage of public shareholders required by Rule 8.08(1) of the Listing Rules is achieved.

In addition, paragraph 5(2) of Appendix 6 to the Listing Rules provides that, unless with the prior written consent of the Hong Kong Stock Exchange, no allocations will be permitted to directors or existing shareholders of the applicant or their close associates, whether in their own names or through nominees unless the conditions set out in Rules 10.03 and 10.04 of the Listing Rules are fulfilled.

Guidance letter HKEX-GL85-16 issued by the Hong Kong Stock Exchange provides that it will consider granting a waiver from Rule 10.04 of the Listing Rules and the consent required under paragraph 5(2) of Appendix 6 to the Listing Rules, allowing an applicant's existing shareholders or their close associates to participate in an initial public offering, if any actual or perceived preferential treatment arising from their ability to influence the applicant during the allocation process can be addressed.

As disclosed in "History, Development and Corporate Structure", we have a wide and diverse shareholder base of 57,595 Shareholders with only one Shareholder, namely Canvest Investment, holding more than 5% of our issued Shares. Certain of these existing Shareholders and/or their close associates may wish to participate in the Global Offering and it would be unduly burdensome for us to seek the prior consent of the Hong Kong Stock Exchange for each of our existing Shareholders ("**Participating Shareholders**") or their respective close associates for subscribing our H Shares in the Global Offering.

As such, we have applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with the requirements under Rule 10.04 of the Listing Rules and paragraph 5(2) of Appendix 6 to the Listing Rules in relation to the subscription of H Shares in the Global Offering by our existing Shareholders other than Canvest Investment and core connected persons of our Bank and their respective close associates as a placee under the International Offering, on the conditions that:

(a) each of the Participating Shareholders together with its close associates is interested in less than 5% of our Bank's voting rights before the Listing;

(b) each of the Participating Shareholders is not a core connected person or its close associate of our Bank;

(c) each of the Participating Shareholders does not have the power to appoint directors or any other special rights;

(d) the allocation to each of the Participating Shareholders or its close associates will not affect our Bank's ability to satisfy the public float requirement;

(e) each of the Participating Shareholders does not have influence over the allocation process;

(f) each of the Participating Shareholders will be treated the same as other investor and will be subject to the same book-building and allocation process as other investors in the Global Offering;

(g) the Joint Sponsors will confirm to the Hong Kong Stock Exchange in writing that based on (i) their discussions with our Bank and the Joint Bookrunners; and (ii) the confirmations provided to the Hong Kong Stock Exchange by our Bank and the Joint Bookrunners (item (h) and (i) below), and to the best of their knowledge and belief, each of them has no reason to believe that the Participating Shareholders and/or its close associates received any preferential treatment in the allocation as a placee by virtue of their relationship with our Bank;

(h) our Bank will confirm to the Hong Kong Stock Exchange in writing that, no preferential treatment has been, nor will be, given to the Participating Shareholders or its close associates by virtue of their relationship with our Bank in any allocation in the placing tranche; and

(i) the relevant Joint Bookrunner(s) will confirm, to the best of their knowledge and belief, to the Hong Kong Stock Exchange in writing that no preferential treatment has been, nor will be, given to the Participating Shareholders or its close associates by virtue of their relationship with our Bank in any allocation in the placing tranche.

For the avoidance of doubt, allocation to the Participating Shareholders and/or their close associates will not be disclosed in our allotment results announcement as it would be unduly burdensome for us to gather and disclose such information while such disclosure will not provide any additional material information to prospective investors of our Bank. Any H Shareholder interested in more than 5% of the issued H Shares upon Listing will be required to disclose his/her/its interest in our Bank pursuant to the provisions under Divisions 2 and 3 of Part XV of the SFO.

**WAIVER IN RESPECT OF THE PUBLIC FLOAT REQUIREMENT**

Rule 8.08(1)(a) of the Listing Rules requires that there must be an open market for the securities in which listing is sought and the minimum public float of a listed issuer must at all times be at least 25% of the issuer's total issued share capital. However, Rule 8.08(1)(d) of the Listing Rules provides that the Hong Kong Stock Exchange may, at its discretion, accept a lower percentage of between 15% and 25%, if a new applicant meets the following requirements under Rule 8.08(1)(d) of the Listing Rules:

(a) the issuer shall have an expected market capitalization at the time of listing of over HK$10 billion;

(b) the number of securities concerned and the extent of their distribution would enable the market to operate properly with a lower percentage of public float;

(c) the issuer will make appropriate disclosure of the lower prescribed percentage of public float in the initial listing document;

(d) the issuer will confirm the sufficiency of the public float in annual reports after listing; and

(e) a sufficient portion (to be agreed in advance with the Hong Kong Stock Exchange) of any securities intended to be marketed contemporaneously within and outside Hong Kong must normally be offered in Hong Kong.

It is currently expected that our Bank will have a market capitalization between approximately HK$54.56 billion and HK$60.00 billion at the time of listing (after completion of the Global Offering but without taking into account the exercise of the Over-allotment Option).

Our Bank has applied to the Hong Kong Stock Exchange to request the Hong Kong Stock Exchange to exercise its discretion under Rule 8.08(1)(d) of the Listing Rules, and the Hong Kong Stock Exchange has granted us, a waiver from strict compliance with the requirements under Rule 8.08(1)(a) of the Listing Rules. Therefore, the public float of our Bank may fall below 25% of the total issued share capital of our Bank.

In support of the application, our Bank has confirmed to the Hong Kong Stock Exchange that:

(a) the minimum public float will be the higher of: (1) 16.67% of the total issued share capital of the Bank; or (2) such percentage of Shares to be held by the public H Shareholders immediately after the completion of the Global Offering and the last exercise of the Over-allotment Option (if any).

(b) the Bank will have an expected market capitalization at the time of the Listing of over HK$10 billion;

(c) we have significant offering size and there will be sufficient liquidity in our Shares notwithstanding a reduction in the minimum public float set out in Rule 8.08(1)(a) of the Listing Rules;

(d) the quantity and scale of the H Shares would enable the market to operate properly with a lower percentage of public float;

(e) the Bank will make appropriate disclosure of the lower percentage of public float in this prospectus;

(f) the Bank will confirm sufficiency of public float in the Bank's annual reports after the Listing; and

(g) the Bank will implement appropriate measures and mechanisms to ensure continual maintenance of the minimum percentage of public float.

## DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which our Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Securities and Futures (Stock Market Listing) Rules of Hong Kong and the Listing Rules for the purpose of giving information to the public with regard to us. Our Directors, having made all reasonable enquiries confirm that, to the best of their knowledge and belief, the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make this prospectus or any statement herein misleading.

## APPROVAL OF THE CSRC AND THE CBIRC

Our Bank obtained approval letters from CBIRC Guangdong Office and the CSRC on June 16, 2020 and May 14, 2021, respectively, for the submission of the application to list our H Shares on the Hong Kong Stock Exchange and for the Global Offering, respectively. In granting such approval, neither the CSRC nor the CBIRC Guangdong Office shall accept any responsibility for our financial soundness, nor for the accuracy of any of the statements made or opinions expressed in this prospectus or on the Green Application Forms.

## UNDERWRITING AND INFORMATION ON THE GLOBAL OFFERING

This prospectus is published solely in connection with the Hong Kong Public Offering. For applications under the Hong Kong Public Offering, this prospectus and the Green Application Forms contain the terms and conditions of the Hong Kong Public Offering. The Global Offering comprises the Hong Kong Public Offering of 114,810,000 H Shares initially offered and the International Offering of 1,033,281,000 H Shares initially offered (subject, in each case, to reallocation on the basis under "Structure of the Global Offering" in this prospectus).

The listing of our H Shares on the Hong Kong Stock Exchange is sponsored by the Joint Sponsors. Pursuant to the Hong Kong Underwriting Agreement, the Hong Kong Public Offering is underwritten by the Hong Kong Underwriters on a conditional basis, with one of the conditions being that the Offer Price is agreed between the Joint Global Coordinators (on behalf of the Underwriters) and us. The International Underwriting Agreement is expected to be entered into on or about Wednesday, September 22, 2021, subject to agreement on the Offer Price between the Joint Global Coordinators (on behalf of the Underwriters) and us. Further details of the Underwriters and the underwriting arrangements are set out in "Underwriting" in this prospectus.

The H Shares are offered solely on the basis of the information contained and representations made in this prospectus and on the Green Application Forms and on the terms and subject to the conditions set out herein and therein. No person is authorized to give any information in connection with the Global Offering or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorized by the Bank, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors, agents, employees or advisers or any other party involved in the Global Offering.

Neither the delivery of this prospectus nor any subscription or acquisition made under it shall, under any circumstances, create any implication that there has been no change in our affairs since the date of this prospectus or that the information in this prospectus is correct as of any subsequent time.

For details of the structure of the Global Offering, including its conditions, please see section "Structure of the Global Offering", and the procedures for applying for the H Shares are set out in "How to Apply for Hong Kong Offer Shares" of this prospectus and on the Green Application Forms.

## DETERMINATION OF THE OFFER PRICE

The H Shares are being offered at the Offer Price which will be determined by the Joint Global Coordinators (on behalf of the Underwriters) and us on or around Wednesday, September 22, 2021 or such later date as may be agreed upon between the Joint Global Coordinators (on behalf of the Underwriters) and us, and in any event no later than Friday, September 24, 2021. If the Joint Global Coordinators (on behalf of the Underwriters) and our Bank are unable to reach an agreement on the Offer Price on such date, the Global Offering will not proceed.

## RESTRICTIONS ON OFFER AND SALE OF THE H SHARES

No action has been taken to permit a public offering of the H Shares in any jurisdiction other than Hong Kong, or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation for subscription in any jurisdiction or in any circumstances in which such an offer or invitation for subscription is not authorized or to any person to whom it is unlawful to make such an offer or invitation for subscription. The distribution of this prospectus and the offering and sales of the H Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom. Each person acquiring the H Shares under the Hong Kong Public Offering will be required to confirm, or be deemed by his/her acquisition of the H Shares to confirm, that he/she is aware of the restrictions on offers and sales of the H Shares in this prospectus. In particular, the H Shares have not been publicly offered, directly or indirectly, in the PRC or the United States.

## APPLICATION FOR LISTING ON THE HONG KONG STOCK EXCHANGE

We have applied to the Listing Committee of the Hong Kong Stock Exchange for the granting of listing of, and permission to deal in, the H Shares which may be issued pursuant to the Global Offering and upon the exercise of the Over-allotment Option. Our Domestic Shares may be converted to H Shares after obtaining the approval of the CSRC or the authorized approval authorities of the State Council, details of which are set out in "Share Capital — Conversion of the Domestic Shares into H Shares" in this prospectus.

Dealings in the H Shares on the Hong Kong Stock Exchange are expected to commence at 9:00 a.m. on Wednesday, September 29, 2021. Except for our pending application to the Hong Kong Stock Exchange for the listing of, and permission to deal in, the H Shares, no part of our share or loan capital is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or proposed to be sought in the near future.

The H Shares will be traded in board lot of 1,000 H Shares. The stock code of the H Shares is 9889. Under section 44B(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, any allotment made in respect of any application will be invalid if the listing of, and permission to deal in, the H Shares on the

Hong Kong Stock Exchange is rejected before the expiration of three weeks from the date of the closing of the subscription application, or such longer period (not exceeding six weeks) as may, within the said three weeks, be notified to the Bank by or on behalf of the Hong Kong Stock Exchange.

## COMPLIANCE WITH THE LISTING RULES

We will comply with applicable laws and regulations in Hong Kong (including the Listing Rules) and any other undertakings which have been given in favor of the Hong Kong Stock Exchange from time to time. If the Listing Committee finds that there has been a breach by us of the Listing Rules or such other undertakings which may have been given in favor of the Hong Kong Stock Exchange from time to time, the Listing Committee may instigate cancellation or disciplinary proceedings in accordance with the Listing Rules.

## REGISTRATION OF SUBSCRIPTION, PURCHASE AND TRANSFER OF H SHARES

We have instructed the H Share Registrar, and the H Share Registrar has agreed, not to register the subscription, purchase or transfer of any H Shares in the name of any particular holder unless the holder delivers a signed form to the H Share Registrar in respect of those H Shares bearing statements to the effect that the holder:

(a) agrees with us and each of the Shareholders, and we agree with each Shareholder, to observe and comply with the PRC Company Law, the Special Regulations and our Articles of Association;

(b) agrees with us, each of our Shareholders, Directors, Supervisors, managers and officers, and we, acting for ourselves and for each of our Directors, Supervisors, managers and officers agree with each Shareholder, to refer all differences and claims arising from our Articles of Association or any rights or obligations conferred or imposed by the PRC Company Law or other relevant laws and administrative regulations concerning our affairs to arbitration in accordance with our Articles of Association, and any reference to arbitration shall be deemed to authorize the arbitration tribunal to conduct hearings in open session and to publish its award, which shall be final and conclusive;

(c) agrees with us and each of our Shareholders that our H Shares are freely transferable by the holders of our H Shares; and

(d) authorizes us to enter into a contract on his or her behalf with each of our Directors, Supervisors, managers and officers whereby such Directors, Supervisors, managers and officers undertake to observe and comply with their obligations to our Shareholders as stipulated in our Articles of Association.

## PROFESSIONAL TAX ADVICE RECOMMENDED

Potential investors in the Global Offering are recommended to consult their professional advisers as to the taxation implications of subscribing for, purchasing, holding or disposal of, and/or dealing in the H Shares or exercising rights attached to them. It is emphasized that none of us, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors, officers, employees, agents or representatives or any other person or party involved in the Global Offering accepts responsibility for any tax effects on, or liabilities of, any person resulting from the subscription, purchase, holding, disposal of, or dealing in, the H Shares or exercising any rights attached to them.

## OVER-ALLOTMENT AND STABILIZATION

Details of the arrangement relating to the Over-allotment Option and stabilization are set out under "Underwriting" in this prospectus.

## PROCEDURES FOR APPLICATION FOR THE H SHARES

The procedures for applying for the H Shares are set out in "How to Apply for Hong Kong Offer Shares" in this prospectus and on the Green Application Forms.

## STRUCTURE OF THE GLOBAL OFFERING

Details of the structure of the Global Offering, including its conditions, are set out in "Structure of the Global Offering" in this prospectus.

## H SHARE REGISTER AND STAMP DUTY

All the H Shares issued pursuant to applications made in the Hong Kong Public Offering and the International Offering will be registered on the H Share register of members of our Bank maintained by Computershare Hong Kong Investor Services Limited in Hong Kong and the principal register of members is maintained in the PRC.

Dealings in the H Shares registered in the H Share register of members of our Bank in Hong Kong will be subject to Hong Kong stamp duty.

Unless otherwise determined by our Bank, dividends payable in Hong Kong dollars in respect of our H Shares will be paid to the Shareholders listed on the H Share register of members of our Bank in Hong Kong, by ordinary post, at the Shareholders' risk, to the registered address of each Shareholder of our Bank.

## SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of the listing of, and permission to deal in, the H Shares on the Hong Kong Stock Exchange and compliance with the stock admission requirements of HKSCC, our H Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in our H Shares on the Hong Kong Stock Exchange or on any other date HKSCC chooses. Settlement of transactions between participants of the Hong Kong Stock Exchange is required to take place in CCASS on the second Business Day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. Investors should seek the advice of their stockbroker or other professional advisor for details of the settlement arrangements as such arrangements may affect their rights and interests. All necessary arrangements have been made to enable the H Shares to be admitted into CCASS.

## EXCHANGE RATE CONVERSION

Solely for your convenience, this prospectus contains translations among certain amounts denominated in Renminbi and Hong Kong dollars. No representation is made and none should be construed as being made that the amounts denominated in one currency could actually be converted into the amounts denominated in another currency at the rates indicated or at all on such date or any other date. Unless indicated otherwise, (i) the translations between Renminbi and Hong Kong Dollars were made at the rate of RMB0.8304 to HK$1.00, the cross rate as calculated by the noon buying US$ to RMB and US$ to HK$ rates in effect on September 3, 2021 as set forth in the H.10 weekly statistical release of the Federal Reserve Bank; (ii) the translations between Renminbi and US dollars were made at the rate of RMB6.4528 to US$1.00, the noon buying rate in effect on September 3, 2021 as set forth in the H.10 weekly statistical release of the Federal Reserve Bank; and (iii) the translations between US dollars and Hong Kong dollars were made at the rate of HK$7.7711 to US$1.00, the noon buying rate in effect on September 3, 2021 as set forth in the H.10 weekly statistical release of the Federal Reserve Bank. Further information on exchange rates is set forth in "Appendix VI — Taxation and Foreign Exchange" to this prospectus.

## LANGUAGE

If there is any inconsistency between this prospectus and the Chinese translation of this prospectus, the English version of this prospectus shall prevail. However, the translated English names of the PRC nationals, entities, departments, institutions, facilities, certificates, titles, laws, regulations and the like included in this prospectus and for which no official English translation exists are unofficial translations for your reference only. If there is any inconsistency, the Chinese name prevails.

## ROUNDING

Certain amounts and percentages figures included in this prospectus have been subject to rounding adjustments or have been rounded to one or two decimal places. Any discrepancies between totals and sums of amounts listed in any table are due to rounding.

## DIRECTORS

| Name | Residential address | Nationality |
|---|---|---|
| *Executive Directors* | | |
| Mr. WANG Yaoqiu (王耀球)<br>*(Chairman)* | Unit 3572, 32 Amber Path<br>Laguna Verona<br>Dajing Management District<br>Houjie Town<br>Dongguan City<br>Guangdong Province, PRC | Chinese |
| Mr. FU Qiang (傅強)<br>*(President)* | Room 101, Unit 1, Block 6<br>Star River Peninsula<br>Panyu District<br>Guangzhou City<br>Guangdong Province, PRC | Chinese |
| Mr. YE Jianguang (葉建光) | 12C, Tower 4, Haicui Garden<br>Dongcheng Center<br>Dongcheng Avenue<br>Dongcheng District<br>Dongguan City<br>Guangdong Province, PRC | Chinese |
| Mr. CHEN Wei (陳偉) | No. 13, Lane 1, Qianwu Street<br>Wushigang, Zhushan Community<br>Dongcheng District<br>Dongguan City<br>Guangdong Province, PRC | Chinese |
| *Non-executive Directors* | | |
| Mr. LAI Chun Tung (黎俊東) | Flat B, 40/F, Grand Deco Tower<br>No. 26 Tai Hang Road<br>Causeway Bay<br>Hong Kong | Chinese |
| Mr. WANG Junyang (王君揚) | No. 13 Nanhu Road<br>Nanshe, Yongkou Village<br>Houjie Town<br>Dongguan City<br>Guangdong Province, PRC | Chinese |

| Name | Residential address | Nationality |
|---|---|---|
| Mr. CAI Guowei (蔡國偉) | House 6, Citic Yuyan<br>3 Yingbin Road<br>Dongcheng District<br>Dongguan City<br>Guangdong Province, PRC | Chinese |
| Mr. YE Jinquan (葉錦泉) | Residential Building No. 1&2<br>Chating Commercial & Residential Community<br>No. 168 Guantai Avenue<br>Nancheng District<br>Dongguan City<br>Guangdong Province, PRC | Chinese |
| Mr. CHEN Haitao (陳海濤) | No. 3 Huangcun South Village<br>Nancheng District<br>Dongguan City<br>Guangdong Province, PRC | Chinese |
| Mr. ZHANG Qingxiang (張慶祥) | Unit 101, Building 746<br>Xinshiji Yilongwan<br>No. 2, Yilong East Road<br>Gaobu Town<br>Dongguan City<br>Guangdong Province, PRC | Chinese |
| Mr. CHEN Weiliang (陳偉良) | Room 1301, Apartment 12<br>Qiufu Road<br>Dalang Town<br>Dongguan City<br>Guangdong Province, PRC | Chinese |

*Independent Non-executive Directors*

| Name | Residential address | Nationality |
|---|---|---|
| Mr. YIP Tai Him (葉棣謙) | Room D, 35/F, Tower 9<br>Tierra Verde<br>Tsing Yi<br>Hong Kong | Chinese |
| Mr. XU Zhi (許智) | Unit 508, Block A<br>Xingchen Building<br>Nancheng District<br>Dongguan City<br>Guangdong Province, PRC | Chinese |

| Name | Residential address | Nationality |
|---|---|---|
| Mr. SHI Wenfeng (施文峰) | Room 1104, Building 04<br>Elysee, CITIC Triumph Town<br>Dongguan Avenue<br>Dongcheng District<br>Dongguan City<br>Guangdong Province, PRC | Chinese |
| Mr. TAN Fulong (譚福龍) | Room 1502, Block 3<br>Xijing Residence<br>Dongjunhao Court<br>Nancheng District<br>Dongguan City<br>Guangdong Province, PRC | Chinese |
| Ms. LIU Yuou (劉宇鷗) | 2-1601, Huakaidi Garden<br>No.1, Dongyuan Road<br>Dongcheng District<br>Dongguan City<br>Guangdong Province, PRC | Chinese |
| Ms. XU Tingting (許婷婷) | 5-2-1402, Hengkeng Fengtai Town<br>Liaobu Town<br>Dongguan City<br>Guangdong Province, PRC | Chinese |

**SUPERVISORS**

| Name | Residential address | Nationality |
|---|---|---|
| Mr. CHEN Sheng (陳勝)<br>*(Chairman)* | A2201, Xiaobei Yujing Square<br>No. 313, Yuexiu North Road<br>Yuexiu District, Guangzhou City<br>Guangdong Province, PRC | Chinese |
| Ms. DENG Yanwen (鄧燕雯) | 1003, Building 3, Zone A<br>Dynatown Star Island<br>Dongcheng District<br>Dongguan City<br>Guangdong Province, PRC | Chinese |
| Mr. WU Lixin (伍立新) | Unit 12, Building 52<br>Century City International Residence Gold Coast<br>Nancheng District<br>Dongguan City<br>Guangdong Province, PRC | Chinese |

| Name | Residential address | Nationality |
|---|---|---|
| Mr. LIANG Zhifeng (梁志鋒) | 6D, Tower 4<br>Peony Garden, Guancui Village<br>88 Dongsheng Road (Dongcheng section)<br>Dongcheng District<br>Dongguan City<br>Guangdong Province, PRC | Chinese |
| Mr. LU Chaoping (盧超平) | No.14, Fourth Lane<br>Xilu Village Group, Bochong<br>Humen Town<br>Dongguan City<br>Guangdong Province, PRC | Chinese |
| Mr. WANG Zhujin (王柱錦) | No. 157<br>Yanwo Shuiwei Village<br>Shipai Town<br>Dongguan City<br>Guangdong Province, PRC | Chinese |
| Mr. LIANG Jiepeng (梁杰鵬) | 769 Meijing Central Road<br>Dalang Town<br>Dongguan City<br>Guangdong Province, PRC | Chinese |
| Mr. ZOU Zhibiao (鄒志標) | 32 Luyang Road<br>New World Garden<br>Dongcheng District<br>Dongguan City<br>Guangdong Province, PRC | Chinese |
| Ms. WEI Haiying (衛海英) | 2103, Block C<br>Yangguang Metropolis Plaza<br>Shipai East Road<br>Tianhe District<br>Guangzhou City<br>Guangdong Province, PRC | Chinese |
| Mr. YANG Biao (楊彪) | Room 1101, 10 Jingyue Street<br>Haizhu District<br>Guangzhou City<br>Guangdong Province, PRC | Chinese |

| Name | Residential address | Nationality |
|---|---|---|
| Mr. ZHANG Bangyong (張邦永) | No. 4202, Unit 3, Building 4<br>Evergrande Jinbi Huafu<br>Xiangyang Road<br>Guancheng District<br>Dongguan City<br>Guangdong Province, PRC | Chinese |
| Ms. MAI Xiuhua (麥秀華) | Room 603, Building 13<br>Lianhua E District<br>202 Changqing South Road<br>Changan Town<br>Dongguan City<br>Guangdong Province, PRC | Chinese |

For more information on our Directors and Supervisors, please see "Directors, Supervisors and Senior Management".

**PARTIES INVOLVED IN THE GLOBAL OFFERING**

**Joint Sponsors**

**China Merchants Securities (HK) Co., Limited**
48/F, One Exchange Square
8 Connaught Place
Central, Hong Kong

**CMB International Capital Limited**
45/F, Champion Tower
3 Garden Road
Central, Hong Kong

**ABCI Capital Limited**
11/F, Agricultural Bank of China Tower
50 Connaught Road Central
Hong Kong

**ICBC International Capital Limited**
37/F, ICBC Tower
3 Garden Road
Hong Kong

**Joint Global Coordinators**

**ABCI Capital Limited**
11/F, Agricultural Bank of China Tower
50 Connaught Road Central
Hong Kong

**China Merchants Securities (HK) Co., Limited**
48/F One Exchange Square
8 Connaught Place
Central, Hong Kong

**CMB International Capital Limited**
45/F, Champion Tower
3 Garden Road
Central, Hong Kong

**ICBC International Capital Limited**
37/F ICBC Tower
3 Garden Road
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**Fortune (HK) Securities Limited**
Units 4102-06, 41/F, Cosco Tower
183 Queen's Road Central
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**Joint Bookrunners**

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**ICBC International Capital Limited**
37/F ICBC Tower
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**Fortune (HK) Securities Limited**
Units 4102-06, 41/F, Cosco Tower
183 Queen's Road Central
Hong Kong

**Haitong International Securities Company Limited**
22/F, Li Po Chun Chambers
189 Des Voeux Road Central
Hong Kong

**CCB International Capital Limited**
12/F, CCB Tower
3 Connaught Road Central
Central, Hong Kong

**AMTD Global Markets Limited**
23/F–25/F, Nexxus Building
41 Connaught Road Central
Hong Kong

**Joint Lead Managers**

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Hong Kong

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48/F One Exchange Square
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Central, Hong Kong

**CMB International Capital Limited**
45/F, Champion Tower
3 Garden Road
Central, Hong Kong

**ICBC International Securities Limited**
37/F ICBC Tower
3 Garden Road
Hong Kong

**Fortune (HK) Securities Limited**
Units 4102-06, 41/F, Cosco Tower
183 Queen's Road Central
Hong Kong

**Haitong International Securities Company Limited**
22/F, Li Po Chun Chambers
189 Des Voeux Road Central
Hong Kong

**CCB International Capital Limited**
12/F, CCB Tower
3 Connaught Road Central
Central, Hong Kong

**AMTD Global Markets Limited**
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41 Connaught Road Central
Hong Kong

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*As to PRC law:*
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Jiangsu Province
PRC

**Legal advisors to the Joint Sponsors and the Underwriters**

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*As to PRC law:*
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F408, Ocean Plaza
158 Fuxing Men Nei Street
Xicheng District
Beijing
PRC

**Auditor and reporting accountant**

**PricewaterhouseCoopers**
*Certified Public Accountants and*
*Registered Public Interest Entity Auditor*
22/F, Prince's Building
Central
Hong Kong

**Receiving banks**

**Bank of China (Hong Kong) Limited**
1 Garden Road
Central
Hong Kong

**Industrial and Commercial Bank of China (Asia) Limited**
33/F, ICBC Tower
3 Garden Road
Central
Hong Kong

| | |
|---|---|
| **Headquarters and registered address** | No.2, Hongfu East Road<br>Dongcheng District<br>Dongguan City<br>Guangdong Province, PRC |
| **Principal place of business in Hong Kong** | 40th Floor, Dah Sing Financial Centre<br>No.248, Queen's Road East<br>Wanchai<br>Hong Kong |
| **Website** | www.drcbank.com<br>*(The contents of the website do not form a part of this prospectus)* |
| **Joint company secretaries** | Mr. YE Jianguang (葉建光)<br>12C, Tower 4, Haicui Garden<br>Dongcheng Center<br>Dongcheng Avenue<br>Dongcheng District<br>Dongguan City<br>Guangdong Province, PRC<br><br>Mr. WONG Wai Chiu (黃偉超) *(HKCGI)*<br>40th Floor, Dah Sing Financial Centre<br>No.248, Queen's Road East<br>Wanchai<br>Hong Kong |
| **Authorized representatives**<br>*(for the purpose of the Listing Rules)* | Mr. YE Jianguang (葉建光)<br>Mr. WONG Wai Chiu (黃偉超) |
| **Authorized representative**<br>*(for the purpose of the Companies Ordinance)* | Mr. WONG Wai Chiu (黃偉超) |
| **Committees under the Board of Directors** | **Strategic Decision and Sannong Committee**<br>Mr. WANG Yaoqiu *(Chairman)*<br>Mr. FU Qiang<br>Mr. LAI Chun Tung<br>Mr. WANG Junyang<br>Mr. CHEN Haitao<br><br>**Comprehensive Risk Management Committee**<br>Mr. YE Jianguang *(Chairman)*<br>Mr. WANG Junyang<br>Mr. ZHANG Qingxiang<br>Mr. XU Zhi |

| | |
|---|---|
| | **Nomination and Remuneration Committee**<br>Mr. YIP Tai Him *(Chairman)*<br>Mr. YE Jinquan<br>Mr. SHI Wenfeng<br>Mr. TAN Fulong |
| | **Related Party Transaction Control Committee**<br>Mr. SHI Wenfeng *(Chairman)*<br>Mr. YE Jianguang<br>Mr. TAN Fulong<br>Ms. LIU Yuou |
| | **Audit Committee**<br>Mr. XU Zhi *(Chairman)*<br>Mr. CHEN Weiliang<br>Ms. LIU Yuou<br>Ms. XU Tingting |
| | **Consumer Rights Protection Committee**<br>Mr. FU Qiang *(Chairman)*<br>Mr. CAI Guowei<br>Mr. CHEN Haitao<br>Ms. XU Tingting |
| **Committees under the Board of Supervisors** | **Nomination Committee**<br>Mr. YANG Biao *(Chairman)*<br>Mr. CHEN Sheng<br>Ms. WEI Haiying<br>Ms. DENG Yanwen |
| | **Supervisory Committee**<br>Mr. ZHANG Bangyong *(Chairman)*<br>Ms. MAI Xiuhua<br>Mr. WU Lixin<br>Mr. LIANG Zhifeng |
| **H Share Registrar** | **Computershare Hong Kong Investor Services Limited**<br>Shops 1712-1716, 17th Floor<br>Hopewell Centre<br>183 Queen's Road East<br>Wanchai, Hong Kong |
| **Compliance advisor** | **ICBC International Capital Limited**<br>37/F, ICBC Tower<br>3 Garden Road<br>Hong Kong |

***This section contains information and statistics relating to the industry in which we operate. We have extracted and derived such information, in part, from data relating to us which were prepared in accordance with IFRS, and from various official or publicly available sources derived from data prepared in accordance with PRC GAAP or other applicable GAAP or accounting standards which may differ from IFRS in certain significant respects. In addition, the information provided by the various official or publicly available sources may not be consistent with the information compiled within or outside China by third parties.***

***We believe that the sources of this information are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information.***

***We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. The information has not been independently verified by us, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Underwriters or any other party involved in the Global Offering and no representation is given as to its accuracy. Accordingly, such information should not be unduly relied upon. As of the Latest Practicable Date, after due inquiries, our Directors confirm that there has been no material adverse change in the market information presented in this section.***

## NATIONAL AND REGIONAL ECONOMY OVERVIEW

### Economy in China

After more than four decades of rapid development, the PRC economy has entered a new stage which is characterized by (i) the shifting in focus of economic development from the pursuit of high GDP growth to the optimization of the economic structure. For instance, in recent years, the PRC government has initiated a supply-side structural reform, which focuses on address overcapacity, reduce inventory, deleverage, lower cost, and bolster areas of weakness (去產能、去庫存、去槓桿、降成本、補短板), (ii) moderate economic development driven by innovation instead of investment, and (iii) the exploration and cultivation of drivers for economic growth, such as domestic consumption upgrades, industrial transformation, continuous urbanization and rural economic development in China. Furthermore, the PRC government has placed strong emphasis on the cooperation with other countries and regions. For instance, since 2013, the PRC government has proposed the "Belt and Road Initiative", a global development strategy involving infrastructure development and investments in 172 countries and international organizations in Asia, Europe, Africa, and the Americas as of June 23, 2021. China's banking industry has been and could continue to be benefited from such economic development opportunities.

China has become the second largest economy since 2010. According to NBS, nominal GDP of China from 2016 to 2020 grew at a CAGR of 8.0% from RMB74.6 trillion to RMB101.6 trillion. In the meantime, individual wealth has been boosted by continuous economic growth of China, disposable income per capita increased at a CAGR of 7.8% from RMB23,821 in 2016 to RMB32,189 in 2020.

The table below sets forth nominal GDP of China for the years indicated.

| | Years ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | **2016** | **2017** | **2018** | **2019** | **2020** | **CAGR (2016-2020)** |
| Nominal GDP (RMB in billions) | 74,640 | 83,204 | 91,928 | 98,652 | 101,599 | 8.0% |

*Source: NBS*

The recent outbreak of COVID-19 has an adverse impact on the general economy in China, the credit risk of China's banking financial institutions as well as the asset quality of their loan portfolios. For details, please see "Summary — Recent Developments", "Risk Factors — The recent outbreak of the contagious COVID-19 in the PRC and worldwide may have an adverse effect on our business, financial condition and results of operations", "Financial Information — No Material Adverse Change" and "Assets and Liabilities — Asset Quality of Our Loan Portfolio".

**Economy in Guangdong Province**

Guangdong Province is located in the southern part of China, adjacent to Hong Kong, Macao and four provinces in the PRC. More than 30 years since 1989, Guangdong Province ranked the first in terms of nominal GDP among all provinces, municipalities directly under the central government and autonomous regions in China. From 2016 to 2020, the nominal GDP of Guangdong Province increased at a CAGR of 7.8%. In addition, according to the Seventh National Population Census in 2020, Guangdong Province had an urbanization rate of 74.2%, which was 10.3 percentage points higher than the average urbanization rate of 63.9% in China.

The table below sets forth nominal GDP of Guangdong Province for the years indicated.

| | Years ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | **2016** | **2017** | **2018** | **2019** | **2020** | **CAGR (2016-2020)** |
| Nominal GDP (RMB in billions) | 8,216 | 9,165 | 9,995 | 10,799 | 11,076 | 7.8% |

*Source: NBS*

In January 2009, the NDRC issued the *Outline of the Plan for the Reform and Development of the Pearl River Delta (2008-2020)*(《珠江三角洲地區改革發展規劃綱要（2008-2020）》), stating the economic development strategy which identified nine major cities, including Dongguan, in Guangdong Province radiant to the Pan-Pearl River Delta Region while cooperating with Hong Kong and Macao. The objective was to develop Guangdong Province into a powerful engine that would drive the national economic growth of China. The "Belt and Road Initiative" will also support the economic development of Guangdong Province as an international trade hub in southern China. In June 2015, Guangdong Province issued the *Action Plan of Guangdong Province under the "Belt and Road Initiative"* (《廣東省參與建設「一帶一路」的實施方案》), which is a plan to establish and strengthen partnerships with countries along the "Belt and Road" regions in policy coordination, facilities connectivity, unimpeded trade and financial integration, and to make Guangdong Province a strategic transportation hub, an economic and trading coordination center and an important engine for the regional economic growth. In 2015, the State Council approved the *Master Plan for China (Guangdong) Pilot Free*

*Trade Zone* (《中國（廣東）自由貿易試驗區總體方案》), making Guangdong Province one of the first four pilot free trade zones in China.

Guangdong Province has a well-developed private economy which plays an important role in providing growth impetus in economic development. In November 2018, the People's Government of Guangdong Province published the *Policies and Measures to Promote the High-quality Development of Private Economy in Guangdong Province* (《廣東省促進民營經濟高質量發展的若干政策措施》), to further encourage, promote and facilitate the development of the private economy in Guangdong Province. In 2020, private economy in Guangdong Province contributed approximately RMB6,070.0 billion, accounting for approximately 54.8% of Guangdong Province's nominal GDP, which strongly supported Guangdong Province's economy as well as enhanced the competitiveness of the regional economy. According to All China Federation of Industry and Commerce, 58 enterprises from Guangdong Province were among the *China Top 500 Private Enterprises of 2020*, ranked third in terms of the number of private enterprises among all provinces in China.

**Economy in the Guangdong-Hong Kong-Macao Greater Bay Area**

In February 2019, the State Council issued the *Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area* (《粵港澳大灣區發展規劃綱要》), which set forth development objectives that include (i) substantially increasing the comprehensive strength of the Guangdong-Hong Kong-Macao Greater Bay Area, (ii) deepening and broadening the cooperation among Guangdong Province, Hong Kong and Macao, and (iii) further enhancing the internal driving forces for development in the regions. The goal is to build an international, first-class bay area and a world-class city cluster that is active and highly innovative, with an optimized industrial structure, convenient transportation and a healthy ecological environment by 2022.

The table below sets forth certain key economic parameters of the Guangdong-Hong Kong-Macao Greater Bay Area in 2020.

| Cities | Nominal GDP | Nominal GDP per capita | Tertiary industry of nominal GDP | Export | Land area | Population[3] |
|---|---|---|---|---|---|---|
| | *(RMB in billions)* | *(RMB)* | *(%)* | *(RMB in billions)* | *(square kilometers)* | *(thousand)* |
| Shenzhen | 2,767 | 178,524[2] | 62.1 | 1,697 | 1,997 | 17,560 |
| Guangzhou | 2,502 | 147,247[2] | 72.5 | 543 | 7,434 | 18,677 |
| Hong Kong | 2,411[1] | 322,202[1] | 93.4[4] | 3,493[1] | 1,107 | 7,401 |
| Foshan | 1,082 | 122,514[2] | 42.1 | 413 | 3,798 | 9,499 |
| Dongguan | 965 | 101,953[2] | 45.9 | 828 | 2,460 | 10,467 |
| Huizhou | 422 | 77,302[2] | 44.3 | 169 | 11,347 | 6,043 |
| Zhuhai | 348 | 156,026[2] | 54.9 | 161 | 1,736 | 2,440 |
| Jiangmen | 320 | 67,900[2] | 49.8 | 113 | 9,507 | 4,798 |
| Zhongshan | 315 | 80,830[2] | 48.3 | 182 | 1,784 | 4,418 |
| Zhaoqing | 231 | 55,698[2] | 42.1 | 30 | 14,891 | 4,114 |
| Macao | 168[1] | 246,226[1] | 95.7[4] | 10[1] | 33 | 683 |

*Source: Hong Kong Census and Statistics Department, Macao Statistics and Census Service, Statistics Bureaus of the Pearl River Delta and Statistics Bureaus of Guangdong*

*Notes:*

(1) Converted by the daily average foreign exchange rate of 2020 (HKD1.00 to RMB0.8893 and MOP1.00 to RMB0.8630.

(2) Except for Hong Kong and Macao, the nominal GDP per capita is calculated by dividing the nominal GDP by the average number of its residents which is calculated by the average of the number of residents at the beginning of 2020 and the number of residents disclosed by the Seventh National Population Census as of November 1, 2020.
(3) Number of residents. Except for Hong Kong and Macao, all cities' population is based on the disclosures as of November 1, 2020 from the Seventh National Population Census in 2020.
(4) The figures of Hong Kong and Macao are based on 2019 figures due to absence of 2020 figures.

**Economy in Dongguan**

Dongguan is well-known as a manufacturing hub and export center in China, and is located in an important strategic position in Guangdong Province, bordering the provincial capital of Guangzhou to the north, Shenzhen to the south, and the Pearl River to the west. Dongguan had a land area of 2,460 square kilometers and a population of 10.5 million according to the Seventh National Population Census in 2020.

Dongguan is referred to as the "World Factory" for its developed modernized manufacturing industry, which the city has leveraged to establish its significance in economy, culture and politics in Guangdong Province. In 2018, Guangdong Province proposed a development concept of "hub, belt and area (一核一帶一區)", which identified three geographic areas in Guangdong Province with distinct characteristics and complementary positioning, and Dongguan is within the Pearl River Delta "hub" area. This concept further reinforced the key position of Dongguan as a hub, subsequent to be a key transportation pivot and manufacturing supportive area to Guangzhou Nansha New Area and Shenzhen Qianhai & Shekou Area set up in the *Implementation Plan for the Construction of China (Guangdong) Pilot Free Trade Zone* (《中國（廣東）自由貿易試驗區建設實施方案》). In the *Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area* (《粵港澳大灣區發展規劃綱要》) issued by the State Council in February 2019, Dongguan has been identified as one of *the nine Pearl River Delta (PRD) municipalities*, one of the seven "key node cities" and the core, along with Shenzhen, in developing a globally influential and competitive cluster of world-class high-end manufacturing industries. According to *Outline of Dongguan 14th Five-Year Plan for the National Economic and Social Development (2021-2025)* (《東莞市國民經濟和社會發展第十四個五年規劃綱要（2021-2025）》), Dongguan will continue to implement a series of measures, including to establish an excellent ecology for innovation and an innovation base in the Bay Area with global influence, to promote the integration of industries and finance and accelerate the development as a major financial city, and to support the new urbanization and rural revitalization and become a model of the development of urban-rural integration. Dongguan also benefits from various other favorable policies, including, the *Outline of the Plan for the Reform and Development of the Pearl River Delta (2008-2020)*(珠江三角洲地區改革發展規劃綱要（2008-2020）》), *Guidance of the State Council on Deepening the Regional Cooperation in the Pan-Pearl River Delta* (《國務院關於深化泛珠三角區域合作的指導意見》), *Closer Economic Partnership Agreement between Mainland and Hong Kong* (《內地與香港關於建立更緊密經貿關係的安排》), *Certain Policies of Dongguan Municipal Government to Further Support the High-quality Development of the Non-public Sector of the Economy* (《東莞市人民政府關於進一步扶持非公有制經濟高質量發展的若干政策》) and other policies and guidelines.

Benefiting from remarkable geographical advantages and favorable policies, Dongguan has maintained relatively rapid economic growth for many years. According to the Statistics Bureau of all cities in Guangdong Province, Dongguan ranked fourth in all of the cities in Guangdong Province in terms of nominal GDP in 2020. In 2020, Dongguan achieved a nominal GDP of RMB965.0 billion. From 2016 to 2020, the nominal GDP of Dongguan recorded a CAGR of 8.6%.

The table below sets forth certain key economic parameters of Dongguan for the years indicated.

| | Years ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | **2016** | **2017** | **2018** | **2019** | **2020** | **CAGR (2016-2020)** |
| Nominal GDP (RMB in billions) | 694 | 758 | 882 | 948 | 965 | 8.6% |
| Actual GDP growth rate | 8.0% | 8.1% | 7.4% | 7.4% | 1.1% | N/A |
| Urban household disposable income per capita (RMB) | 43,096 | 46,739 | 50,721 | 55,156 | 58,052 | 7.7% |
| Rural household disposable income per capita (RMB) | 26,526 | 29,078 | 32,277 | 35,905 | 38,827 | 10.0% |
| Fixed asset investments (RMB in billions) | 156 | 171 | 181 | 213 | 240 | 11.4% |
| Total import and export volume (RMB in billions) | 1,142 | 1,226 | 1,342 | 1,380 | 1,330 | 3.9% |

*Source: Statistics Bureau of Dongguan*

## CHINA'S BANKING INDUSTRY OVERVIEW

### Banking Industry in China

China's banking industry has grown rapidly in the last decade, primarily driven by strong macroeconomic growth in China. From 2016 to 2020, the aggregate RMB-denominated deposits and loans of China's banking institutions grew at a CAGR of 9.0% and 12.8%, respectively.

The table below sets forth information on the aggregate RMB- and foreign currency-denominated deposits and loans of China's banking institutions as of the dates indicated.

| | As of December 31, | | | | | |
|---|---|---|---|---|---|---|
| | **2016** | **2017** | **2018** | **2019** | **2020** | **CAGR (2016-2020)** |
| Total RMB-denominated deposits (RMB in billions) | 150,586 | 164,104 | 177,523 | 192,879 | 212,572 | 9.0% |
| Total RMB-denominated loans (RMB in billions) | 106,604 | 120,132 | 136,297 | 153,112 | 172,745 | 12.8% |
| Total foreign currency-denominated deposits (USD in billions) | 712 | 791 | 728 | 758 | 889 | 5.7% |
| Total foreign currency-denominated loans (USD in billions) | 786 | 838 | 795 | 787 | 867 | 2.5% |

*Source: PBoC*

The following table sets forth certain information on commercial banks in China as of the dates and for the years indicated.

| | As of and for the years ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2016 | 2017 | 2018 | 2019 | 2020 | CAGR (2016-2020) |
| Total assets (RMB in billions) | 181,688 | 196,783 | 209,964 | 239,488 | 265,792 | 10.0% |
| Total liabilities (RMB in billions) | 168,592 | 182,061 | 193,488 | 220,054 | 244,541 | 9.7% |
| Net profit (RMB in billions) | 1,649 | 1,748 | 1,830 | 1,993 | 1,939 | 4.1% |
| Return on assets (%) | 0.98 | 0.92 | 0.90 | 0.87 | 0.77 | N/A |
| Allowance coverage ratio (%) | 176.40 | 181.42 | 186.31 | 186.08 | 184.47 | N/A |
| NPL ratio (%) | 1.74 | 1.74 | 1.83 | 1.86 | 1.84 | N/A |

*Source: CBIRC*

China's banking financial institutions are generally divided into large commercial banks, nationwide joint-stock commercial banks, city commercial banks, rural financial institutions and others.

The table below sets forth the total assets of different types of China's banking financial institutions industry as of the dates indicated.

| | Total Assets | | | | | |
|---|---|---|---|---|---|---|
| | As of December 31, | | | | | |
| | 2016 | 2017 | 2018 | 2019 | 2020 | CAGR (2016-2020) |
| | *(RMB in billions, except percentages)* | | | | | |
| Large commercial banks | 86,598 | 92,815 | 98,353 | 116,777 | 128,429 | 10.4% |
| Nationwide joint-stock commercial banks | 43,473 | 44,962 | 47,020 | 51,782 | 57,833 | 7.4% |
| City commercial banks | 28,238 | 31,722 | 34,346 | 37,275 | 41,070 | 9.8% |
| Rural financial institutions(1) | 29,897 | 32,821 | 34,579 | 37,216 | 41,531 | 8.6% |
| Others(2) | 44,047 | 50,085 | 53,942 | 46,953 | 50,879 | 3.7% |

*Source: CBIRC*

*Notes:*

(1) Including rural commercial banks, rural cooperative banks, rural credit cooperatives and novel rural financial institutions (including county banks).

(2) Others include policy banks and China Development Bank, private banks, foreign banks, non-bank financial institutions and financial investment companies. Before 2019, the Postal Savings Bank of China was included under others category analysis. From 2019, the Postal Savings Bank of China was included under large commercial banks category analysis.

Among banking financial institutions in China, large commercial banks, and nationwide joint-stock commercial banks are licensed to engage in commercial banking business across China, possessing significant advantages over the other categories of banking institutions in China in respect of market share and geographic coverage. On the other hand, leveraging their extensive understanding of local markets and close relationships with local customers, city commercial banks and rural financial institutions are generally well positioned to seize the opportunities related to their respective designated geographic areas.

**Rural Commercial Banks**

Rural commercial bank is categorized as a form of rural financial institutions. China's rural financial institutions mainly include rural commercial banks, rural cooperative banks, rural credit cooperatives and novel rural financial institutions (including county banks). In the late 1990s, CBRC has adopted specific policies and measures to support Sannong and to promote the establishment and development of new types of rural financial institutions in China. Rural commercial bank originated from the rural credit cooperatives. In 2001, the first three rural commercial banks were established and marked the rural commercial bank as a new form of commercial bank in China. In 2011, the CBRC indicated that it would encourage the conversion of qualified rural credit cooperatives into rural commercial banks and no further establishment of rural cooperative banks would be approved, all existing rural cooperative banks were required to be converted into rural commercial banks. According to CBIRC's statistics, as of December 31, 2020, there were 1,539 rural commercial banks.

Rural commercial bank mainly provides banking products and services to micro-, small- and medium-sized enterprises and Sannong. Rural commercial bank is also required to continuously intensify, enhance, and improve the mechanism of financial services for Sannong and constantly enhance the capacities and level of services for Sannong as required by CBIRC. Apart from supervisions and regulations generally applicable to commercial banks, rural commercial bank must also comply with specific supervisions and regulations, like the Measures for Implementation of Administrative Licensing Matters Concerning Rural Small and Medium Banking Institutions (《農村中小銀行機構行政許可事項實施辦法》) issued by CBIRC on December 26, 2019, which includes the initial establishment criteria, requirements relating to founding shareholders, establishment of branches, and business operation, directors and management eligibility, and also requires a rural commercial bank to indicate itself as a rural commercial bank in the legal name so as to be identifiable to the public. For details, please see "Supervisions and Regulations — Licensing Requirements".

The table below sets forth certain information relating to rural commercial banks as of the year end and for the years indicated.

| | 2016 | 2017 | 2018 | 2019 | 2020 | CAGR (2016-2020) |
|---|---|---|---|---|---|---|
| | | | *(RMB in billions, except percentage)* | | | |
| Total assets | 20,268 | 23,703 | Not disclosed | Not disclosed | Not disclosed | N/A |
| Profit after tax | 178 | 197 | 209[(1)] | 229[(1)] | 195[(1)] | 2.3% |
| NPL ratio (%) | 2.5% | 3.2% | 4.0%[(1)] | 3.9%[(1)] | 3.9%[(1)] | N/A |
| Provisional coverage (%)[(1)] | 199.1% | 164.3% | 132.5% | 128.2% | 122.2% | N/A |
| Return on assets (%)[(1)] | 1.0% | 0.9% | 0.8% | 0.8% | 0.6% | N/A |

*Source: CBIRC, CBIRC's Annual Reports*

*Note:*

(1) According to the fourth quarter data from CBIRC.

According to 2021 China's Top 100 Banks (《2021年中國銀行業100強榜單》) ranked by the China Banking Association in 2021[1], we ranked the fifth among all the rural commercial banks in China (based on information disclosed) and second among all the rural commercial banks in Guangdong Province in terms of

[1] Not including commercial banks of which annual reports or effective audited annual reports were not available at the issuance of the rankings in July 2021. Chongqing Rural Commercial Bank, Shanghai Rural Commercial Bank, Beijing Rural Commercial Bank, Guangzhou Rural Commercial Bank and Chengdu Rural Commercial Bank are incorporated either in provincial capital cities or in municipalities directly under the central government.

total assets as of December 31, 2020, with a market share of 12.9% among rural financial institutions in Guangdong Province. The following table lists the top 10 rural commercial banks in terms of total assets according to 2021 China's Top 100 Banks with their operating data as of and for the year ended December 31, 2020.

| | As of and for the years ended December 31, 2020[1] | | | | |
|---|---|---|---|---|---|
| | Total Assets | Net core tier-one capital | Net profit | Cost-to-income ratio | NPL |
| | *(RMB in billions, except percentages)* | | | | |
| Chongqing Rural Commercial Bank | 1,136 | 94 | 8.57 | 27.09% | 1.31% |
| Shanghai Rural Commercial Bank | 1,057 | 78 | 8.42 | 28.86% | 0.99% |
| Beijing Rural Commercial Bank | 1,029 | 65 | 7.42 | 36.88%[2] | 0.90% |
| Guangzhou Rural Commercial Bank | 1,028 | 60 | 5.28 | 31.95% | 1.81% |
| **Dongguan Rural Commercial Bank** | **548** | **36** | **5.06** | **31.51%** | **0.82%** |
| Chengdu Rural Commercial Bank | 520 | 44 | 3.85 | 29.29% | 1.79% |
| Shenzhen Rural Commercial Bank | 519 | 34 | 4.78 | 30.24% | 1.13% |
| Jiangnan Rural Commercial Bank | 437 | 28 | 2.86 | 25.93% | 1.60% |
| Qingdao Rural Commercial Bank | 407 | 27 | 2.98 | 28.79% | 1.44% |
| Shunde Rural Commercial Bank | 367 | 30 | 2.75 | 42.62% | 0.94% |

*Source: annual reports of respective banks*

*Notes:*

(1) Financial statements of Chongqing Rural Commercial Bank, Guangzhou Rural Commercial Bank and Dongguan Rural Commercial Bank are prepared in accordance with IFRS. Financial statements of other banks are prepared in accordance with PRC GAAP.

(2) Calculated by dividing the sum of operating and administrative expenses and other operating expenses by total operating income.

**Banking Industry in Guangdong Province**

As of December 31, 2020, the total RMB-denominated deposits and loans of financial institutions in Guangdong Province amounted to RMB25,785.2 billion and RMB18,980.2 billion, respectively, representing a CAGR of 10.8% and 16.3%, respectively, from 2016 to 2020.

As of December 31, 2020, the total foreign currency-denominated deposits and loans of financial institutions in Guangdong Province amounted to US$150.0 billion and US$90.1 billion, respectively, representing a CAGR of 4.2% and -3.8%, respectively, from 2016 to 2020.

The table below sets forth relevant information on RMB- and foreign currency-denominated deposits and loans of financial institutions in Guangdong Province as of the dates indicated.

| | As of and for the years ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2016 | 2017 | 2018 | 2019 | 2020 | CAGR (2016-2020) |
| Total RMB-denominated deposits (RMB in billions) | 17,102 | 18,478 | 19,958 | 22,296 | 25,785 | 10.8% |
| Total RMB-denominated loans (RMB in billions) | 10,365 | 11,898 | 13,910 | 16,238 | 18,980 | 16.3% |
| Total foreign currency-denominated deposits (USD in billions) | 127 | 149 | 123 | 136 | 150 | 4.2% |
| Total foreign currency-denominated loans (USD in billions) | 105 | 108 | 88 | 81 | 90 | (3.8)% |

*Source: PBoC Guangzhou Branch*

**Competitive Landscape of Banking Industry in Guangdong Province**

The following table sets out the total assets of various types of banking financial institutions in Guangdong Province as of December 31, 2020.

| | Total assets | Market share | CAGR (2016-2020) |
|---|---|---|---|
| | *(RMB in billions)* | | |
| Large commercial banks(1) | 12,022 | 40.7% | 7.1% |
| Nationwide joint-stock commercial banks | 6,683 | 22.6% | 1.8% |
| City commercial banks | 2,497 | 8.4% | 10.5% |
| Rural financial institutions(2) | 4,240 | 14.3% | 9.5% |
| Other banking financial institutions(3) | 4,134 | 14.0% | 17.9% |
| **Total** | **29,576** | **100.0%** | **7.5%** |

*Source: Guangdong Province Financial Performance Report (《廣東省金融運行報告》) prepared by PBoC Guangzhou Branch.*

*Notes:*

(1) From 2019, the Postal Savings Bank of China was included under large commercial banks category analysis.

(2) Comprises rural commercial banks, rural cooperative banks, rural credit cooperatives and novel rural financial institutions (including county banks).

(3) Primarily comprises foreign financial institutions, policy banks and China Development Bank, finance companies and trust companies.

According to the CBIRC Guangdong Office, the total net profits, return on average assets and average return on average equity of the banking financial institutions under its jurisdiction (except Shenzhen) for 2020 were RMB187.5 billion, 0.86% and 9.73%, respectively. As of December 31, 2020, the NPL ratio was 1.02% and the provision coverage was 208.78%.

**Banking Industry in Dongguan**

According to the Statistics Bureau of Dongguan, as of December 31, 2020, the total RMB-denominated deposits and loans of financial institutions in Dongguan amounted to RMB1,744.0 billion and RMB1,202.3 billion, respectively, representing a CAGR of 11.7% and 17.1%, respectively, from 2016 to 2020.

As of December 31, 2020, the total foreign currency-denominated deposits and loans of financial institutions in Dongguan amounted to RMB79.2 billion and RMB75.4 billion, respectively, representing a CAGR of 23.0% and 51.5%, respectively, from 2016 to 2020.

The following table sets out the total amount of RMB-and foreign currency-denominated deposits and loans of financial institutions in Dongguan as of the dates indicated.

| | As of and for the years ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2016 | 2017 | 2018 | 2019 | 2020 | CAGR (2016-2020) |
| Total RMB-denominated deposits (RMB in billions) | 1,120 | 1,184 | 1,343 | 1,541 | 1,744 | 11.7% |
| Total RMB-denominated loans (RMB in billions) | 640 | 686 | 800 | 960 | 1,202 | 17.1% |
| Total foreign currency-denominated deposits (RMB in billions) | 35 | 66 | 73 | 102 | 79 | 23.0% |
| Total foreign currency-denominated loans (RMB in billions) | 14 | 13 | 21 | 53 | 75 | 51.5% |

*Source: Statistics Bureau of Dongguan*

**Competitive Landscape of Banking Industry in Dongguan**

Major banks in the banking industry in Dongguan include our Bank, Bank of Dongguan and local branches of the large commercial banks and nationwide joint-stock commercial banks. According to PBoC Dongguan Center Branch, our Bank has ranked the first among banking institutions in Dongguan each year since 2005 in terms of year-end balance of deposits and loans. As of December 31, 2020, our Bank has market share of 19.16% and 19.13% in terms of RMB-denominated deposits and loans in Dongguan, respectively. According to CBIRC Dongguan Office, as of December 31, 2020, we have the largest number of outlets among commercial banks in Dongguan. The table below sets forth certain key operating indicators of major banks headquartered in Dongguan as of and for the year ended December 31, 2020.

| | As of and for the years ended December 31, 2020 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Total outlets | Total assets | Total shareholders' equity | Operating Income | Net profit | Total deposits | Total loans |
| | *(RMB in millions, except for the number of total outlets)* | | | | | | |
| Our Bank | 506 | 548,402 | 38,643 | 12,047 | 5,055 | 377,549 | 254,642 |
| Bank of Dongguan | 163 | 416,326 | 27,081 | 9,158 | 2,876 | 295,939 | 223,735 |

*Sources: annual report of Bank of Dongguan*

## INDUSTRY TRENDS AND GROWTH DRIVERS

**Increasingly Significant Role of Rural Financial Institutions in China**

According to the Seventh National Population Census in 2020, the population in rural areas in China accounted for 36.1% of the total population. For the year 2020, added-value generated from the primary industry accounted for 7.7% of the GDP of China (Added-value generated from the primary industry is the final result of all resident units in China engaged in the production of primary industry in a certain period of time calculated by the market value. Primary industry includes farming, forestry, animal husbandry and fishery). Driven by the continued urbanization and industry migration in the rural areas, the rapid growth of the economy in China's rural areas has increasingly solidified its importance to the overall economy in China. Since 2006, the State Council, CBIRC and other relevant bodies have implemented various measures and regulations to facilitate the reform and development of rural financial institutions in China. For instance, in February 2016, the State Council issued *Certain Opinions on Deepening the Development of New Urbanization* (《關於深入推進新型城鎮化建設的若干意見》), allocating greater support to the rural areas with enormous development potential and strong population-carrying capacity. In February 2017, the State Council issued the *Guidance on the Reform of the Investment and Financing Mechanism for Rural Infrastructure* (《關於創新農村基礎設施投融資體制機制的指導意見》), encouraging commercial banks to increase the credit facilities for rural infrastructure. In February 2019, PBoC, CBIRC, CSRC, MOF and MoA jointly issued *the Guidelines on Finance Serving Rural Vitalization* (《關於金融服務鄉村振興的指導意見》), emphasizing that the systems of market, organization and products for finance to serve rural vitalization will be established and improved to encourage the financial resources to flow back to the rural areas. These measures and regulations have refined and simplified the conditions, standards and procedures for administrative approval for the establishment of rural financial institutions, and clarified the role of rural financial institutions in the economic development of rural areas. In addition, private-sector capital investment in rural financial institutions is encouraged. In April 2020, PBoC downward adjusted the deposit reserve ratio of selected institutions, including rural credit cooperatives, rural commercial banks and county banks, by one percentage point to ease long term funding.

However, the penetration rate of financial services in the rural areas in China remains comparatively low, which indicates a significant growth potential. Such potential, along with the favorable governmental policies, has spurred a fast-growing financial market in the rural areas in recent years. According to the CBIRC's statistics, there were a total of 2,207 rural financial institutions (including rural credit cooperatives, rural commercial banks and rural cooperative banks) in China as of December 31, 2020. As of December 31, 2020, PRC rural financial institutions accounted for 13.0% of the total assets of financial institutions in the PRC banking industry. From 2016 to 2020, the CAGR of the total assets of rural financial institutions was 8.6%. Rural financial institutions have a number of competitive advantages over other financial institutions including, among other things, their extensive local networks, local expertise and strong loyalty of their local customers. These advantages have enabled rural financial institutions to satisfy customer needs in a timely manner in response to market changes, and to enlarge their customer bases and expand their market share.

**Increasing Demand for Personal Financial Services**

The disposable income of PRC residents has been increasing continuously for the past four decades, which in turn has driven demand for personal financial services. According to information from NBS, disposable income per capita of PRC households increased from RMB23,821 in 2016 to RMB32,189 in 2020, representing a CAGR of 7.8%.

The amount of personal investable assets held by PRC residents reached an aggregate of RMB241.0 trillion in 2020. The population of high-net-worth individuals in the PRC who have investable assets of more than RMB10 million was 2.62 million in 2020.

As a result of the rapid growth in disposable income of PRC residents, the increase in individual investable assets and the growing demand for banking services and wealth management agency services, commercial banks in China continue to expand financial products and services offerings to individual customers and extend coverage to services such as asset management, wealth management and private banking. As the demands for individual wealth protection, asset appreciation and diversified asset allocation grow continuously, these financial services have high growth potential in China. In addition, increasing demand from individuals for diversified financial services and rapid development in mobile and internet technology have also driven the expansion and diversification of new personal financial products and service channels.

**Increasing Importance of Banking Services for SMEs**

According to the CBIRC website, as of December 31, 2020, loans under inclusive finance to SMEs from large commercial banks, nationwide joint-stock commercial banks, city commercial banks and rural financial institutions amounted to approximately RMB15 trillion in aggregate, representing 98.2% of the total loans under inclusive finance to SMEs from banking financial institutions. The total balance of loans under inclusive finance to SMEs as of December 31, 2020 increased by 30.9% as compared to the same period of 2019.

The following table sets forth the breakdown of the loan amount extended to SMEs under inclusive finance[1] (including loans to small-sized enterprises, micro-sized enterprises, individual business households and small and micro business owners) by banking financial institutions in China as of the dates indicated.

| | As of December 31, 2019 | As of December 31, 2020 |
|---|---|---|
| | *(RMB in billions)* | |
| Banking financial institutions, among which | 11,667 | 15,267 |
| Large commercial banks | 3,257 | 4,833 |
| Nationwide joint-stock commercial banks | 2,161 | 2,766 |
| City commercial banks | 1,742 | 2,218 |
| Rural financial institutions(1) | 4,321 | 5,178 |

*Source: CBIRC's Website*

*Note:*

(1) Rural financial institutions include rural commercial banks, rural cooperative banks, rural credit cooperatives and novel rural financial institutions (including county banks).

To facilitate the development of SMEs and meet their financing demands, the State Council, PBoC and CBIRC have issued a number of policies and measures to encourage banking financial institutions to provide broader product portfolios and design tailored financial products to specifically meet SMEs' financing needs, for instance, adjusting the maturity of the products that matches the cash flow needs of SMEs. These policies and measures mainly include:

*Lowered deposit reserve ratio*. In February 2015, the RMB statutory deposit reserve ratio for commercial banks that satisfies the prudent operational requirements for granting loans was lowered by 0.5%. In April, July and October 2018, the RMB statutory deposit reserve ratio for certain commercial banks, Postal Saving Bank and foreign-invested banks was lowered by 1.0%, 0.5% and 1.0% to support, among other things, financing of small- and micro-sized businesses. In January and September 2019, and January 2020, PBoC has lowered the RMB statutory deposit reserve ratio by 1.0%, 0.5% and 0.5%, respectively which is expected to effectively increase loan funding sources of SMEs. In April 2020, PBoC further lowered statutory deposit reserve ratio for selected banking financial institutions, including rural commercial banks by 0.5% effective from April 15, 2020

1 Loans under inclusive finance are loans of not more than RMB10 million to individual SME.

and a further 0.5% reduction effective from May 15, 2020. In July, 2021, PBoC decided to lower the statutory deposit reserve ratio for financial institutions by 0.5% effective from July 15, 2021.

*Tailored products*. In July 2014, CBRC issued the *Notice on Improving and Innovating Loan Services to SMEs, and Enhancing the Financial Services for SMEs* (《關於完善和創新小微企業貸款服務提高小微企業金融服務水平的通知》), encouraging banking financial institutions to set a reasonable loan maturities to SMEs, expand and improve the working capital financing products to SMEs, and explore the new models on working capital loans to SMEs. In January 2016, the State Council issued the *Plan for Promoting Inclusive Finance (2016-2020)* (《推進普惠金融發展規劃》 (2016-2020年)), encouraging large banks to accelerate the establishment of specialized institutions for SMEs and commercial banks to increase their financing resources for SMEs. In June 2018, PBoC, CBIRC, CSRC, NDRC and MOF jointly issued the *Opinions Concerning Further Deepening of Financial Services for SMEs* (《關於進一步深化小微企業金融服務的意見》), outlining multiple measures for expanding financial support for SMEs in areas including monetary policy, regulatory assessment, internal controls, fiscal and tax incentives and improvements to the business environment, such measures encourage banking financial institutions to issue asset backed securitization products in connection with loans extended to SMEs. In January 2019, PBoC announced that it would relax the assessment criteria of inclusive finance for funding of SMEs, adjusting the upper limit of the credit line from RMB5.0 million to RMB10.0 million.

*Tax incentive*. In September 2018, MOF and the State Administration of Taxation jointly issued the *Notice of the Ministry of Finance and the State Administration of Taxation on the Exemption of Value-Added Tax on the Interest Income Obtained by Financial Institutions from Granting Loans to SMEs* (《財政部、稅務總局關於金融機構小微企業貸款利息收入免徵增值稅政策的通知》), stipulating that from September 1, 2018 to December 31, 2020, the interest income obtained by financial institutions from granting small amount loans to SMEs, and individual industrial and commercial households shall be exempt from value-added tax. As a result of these favorable policies, it is expected that banking services for SMEs will become an increasingly important component of the PRC banking industry.

**Ongoing Reform of the LPR Mechanism**

In recent years, China has implemented a series of policies and measures promoting the liberalization of the financial system and, at the same time, strengthening the regulation and supervision of the banking industry. In the past, interest rates on RMB-denominated deposits and loans are set by PBoC and commercial banks are required to abide by the restrictions imposed by PBoC. In recent years, the progress of interest rate liberalization in China has gained momentum. In June 2012, PBoC permitted financial institutions to set interest rates on RMB-denominated deposits at up to 110.0% of PBoC benchmark interest rates. In July 2013, PBoC abolished interest rate floor on RMB-denominated loans (excluding interest rates on residential mortgage loans) and allowed financial institutions to set interest rates on loans based on commercial considerations. In November 2014, PBoC allowed financial institutions to set interest rates on RMB-denominated deposits at up to 120.0% of PBoC benchmark interest rates, which was raised to 130.0% and then to 150.0% of PBoC benchmark interest rates effective from March 1, 2015 and May 11, 2015, respectively. In August 2015, PBoC removed the cap on the interest rates on RMB-denominated time deposits with tenors of longer than one year while the cap on the interest rates on RMB-denominated demand deposits and time deposits with tenors up to one year remain unchanged. In October 2015, PBoC further removed the cap on interest rates on deposits and allowed commercial banks in China to set interest rates on deposits based on commercial considerations.

Interest rate liberalization allows commercial banks to set and adjust interest rates on deposits and loans more proactively. For instance, the LPR, originally introduced by PBoC in October 2013, is generally the most preferential interest rate that commercial banks offer to their prime clients and was intended to better reflect market demand for funds than the benchmark set by PBoC. Since the reforms announced by PBoC in August 2019, the current LPR has been linked to rates set during open market operations, namely PBoC's medium-term lending facility (the "**MLF**"), which is determined by broader financial system demand for central bank liquidity. Commercial banks must set the interest rates for new loans based on the quoted market rate and regard the LPR as the basis of determination of interest rates of current loans. Setting the LPR slightly higher than MLF rate will in theory provide borrowers access to funds at rates that better reflect funding conditions in the banking system and provide a smoother policy transmission mechanism. The reform of the LPR mechanism is an important part of the financial supply-side reforms to pave the monetary transmission channel and gradually reduce borrowing costs. As of the Latest Practicable Date, China's LPR keeps a downward trend since the downward adjustment in August 2019.

Such reform is expected to increase the loans extended to SMEs by commercial banks and lower the relevant financing cost. In addition, enterprises may report banks' attempt of setting an implicit interest rate floor to the regulators and supervisory bodies of industry organizations. PBoC has also included the implementation of the new LPR scheme and loan interest rate competitive behaviors in the macro-prudential assessment scope of banks.

**Trend towards the Full-service Model of the PRC Banking Industry**

The full-service model will become one of the trends of the PRC banking industry in the future.

As of the Latest Practicable Date, PRC commercial banks were allowed to apply for licenses of funds, insurance and financial leasing etc. The transformation towards the full-service model will be a gradual process, as the relaxation of financial licenses involves various changes in laws and regulations and reform of the regulatory regimes. It is expected that investment banking, private equity and asset management will become the major areas for full-service operations of the PRC banking industry. Commercial banks will gain market share in capital market businesses by virtue of their strengths in scale and resources, and offer diversified and integrated financial services by leveraging their large customer base. As a result, the full-service model is expected to improve the profitability of PRC commercial banks and the ecosystem of the PRC financial industry.

**Opportunities Arising from Financial Technologies**

In recent years, further development of online wealth management products, third-party online payment platforms, internet financing service platforms, big data and crowdfunding have accelerated the innovation of financial products and technology. According to CNNIC, the number of online payment users in China increased from 474.5 million in 2016 to 854.3 million in 2020, representing a CAGR of 15.8%.

In recent years, the PRC banking industry has capitalized on rapidly developing internet and mobile technology to introduce new businesses, products and service platforms, including the establishment of e-commerce platforms to provide financial services to customers and set-up of online sales platforms for their financial products. Certain commercial banks have attempted to improve operating efficiency and strengthen risk management by launching online account opening services and utilizing big data technology for customer due diligence. In addition, certain PRC commercial banks have launched direct banking services to provide customers with user-friendly and value-for-money financial products and services through e-channels. Comprehensive cooperation between commercial banks and internet finance companies, including, among other things, internet payment, has become one of the highlights in the transformation of the banking industry in China.

### Increasingly Improved and Enhanced Regulatory and Supervision System

In spite of the gradual relaxed restrictions on certain businesses, products and financing channels of commercial banks, for instance, the reduction of limitations on asset securitization, the regulatory authorities of China's banking industry have developed and further refined the prudential regulatory regimes and strengthened supervision over various aspects, mainly including a closer supervision on capital adequacy, strengthened risk management and counter-cyclical regulation, enhancement in corporate governance, reinforced supervision and regulation on internet finance, enhanced regulation on credit business in certain industries, improved supervision and regulation on wealth management business and interbank business.

For further information on regulation of China's banking industry, please see "Supervision and Regulation."

## IMPACT OF THE COVID-19 OUTBREAK

The unprecedented COVID-19 outbreak in early 2020 has inevitably caused the Chinese economy to slowdown in the first half of 2020. By virtue of the effective pandemic control measures adopted by the government and favorable economy policies, Chinese economy is recovering from the pandemic and showing positive trend of rebounding in the second half of 2020. For example, China recorded negative GDP growth of 6.8% in the first quarter of 2020, while it recorded GDP growth of 3.2%, 4.9% and 6.5% respectively for the remaining three quarters in 2020, respectively, as compared to the corresponding period in 2019. Similar recovery trend can also be observed in other data such as total retail sales of consumer goods, fixed asset investment and industrial output.

In view of the COVID-19, the Chinese government has introduced a number of supportive policies, encouraging banks and financial institutions to enhance the credit support to the real economy, especially to the SMEs and individuals affected by the COVID-19.

On March 1, 2020, CBIRC, PBoC and other relevant PRC governmental authorities jointly issued the Notice on Temporary Deferral of Repayment of Principal and Interest of Loans to Micro-, Small- and Medium-Sized Enterprises (Yin Bao Jian Fa [2020] No. 6) 《關於對中小微企業貸款實施臨時性延期還本付息的通知》 (銀保監發[2020]6號) (the "**March 1 Notice**"), which allows banking financial institutions to provisionally defer repayment of principal due by January 25, 2020 for certain period of time (the latest deferred due date being June 30, 2020) upon application by qualified micro-, small- and medium- sized enterprises (including owners of those enterprises and individual business operators) having financial difficulties. The repayment date for interest due by January 25, 2020 to June 30, 2020 payable by micro-, small- and medium-sized enterprises, upon application, could be deferred to not later than June 30, 2020.

On March 13, 2020, PBoC announced that it would cut the reserve requirement ratio (the "**RRR**") by 50-100 basis points for qualified banks and qualified joint-stock commercial banks would enjoy an additional cut of 100 basis points, aiming at encouraging small- and mid-sized banks to provide affordable loans to SMEs.

On April 3, 2020, PBoC further announced to downward adjust the deposit reserve ratio for small- and mid-sized banks, including rural credit cooperatives, rural commercial banks, rural cooperative bank, county banks and city commercial banks solely operated in provincial administrative region, by one percentage point. In addition, the interest rate on financial institutions' excess reserves with PBoC would be reduced from 0.72% to 0.35%, effective from April 7, 2020.

On June 1, 2020, CBIRC, PBoC and other PRC regulatory authorities jointly issued the Notice on the Further Implementation of Periodic Deferment of Repayment of Principal and Interest of Loans to Micro-, Small- and Medium- Sized Enterprises (《關於進一步對中小微企業貸款實施階段性延期還本付息的通知》) (銀發[2020]122號) (the "**June 1 Notice**"), allowing banking financial institutions to extend their deferral arrangements for loans granted to qualified micro-, small- and medium sized enterprises for an extension up to March 31, 2021 for the repayment of principal and interest due between June 1, 2020 and December 31, 2020.

On December 31, 2020, PBoC, CBIRC, MOF, NDRC and MIIT jointly issued the Notice on Continuous Implementation of Deferral of Repayment of Principal and Interest of Inclusive Loans to Micro- and Small-Sized Enterprises and Provision of Credit Loans to Micro- and Small-Sized Enterprises (《關於繼續實施普惠小微企業貸款延期還本付息政策和普惠小微企業信用貸款支持政策有關事宜的通知》（銀發[2020]324號）) (the "**December 31 Notice**") , providing that for inclusive loans to micro- and small-sized enterprises, being loans to micro- and small-sized enterprises with not more than RMB10.0 million yuan of a single credit line and operating loans to individual industrial and commercial households and owners of micro and small enterprises, due between January 1, 2021 and March 31, 2021 shall be extended by negotiation between the bank and the borrower based on the principle of "due extension". On March 29, 2021, PBoC, CBIRC, MOF, NDRC and MIIT jointly issued the Notice on the Further Extension of Deferral of Repayment of Principal and Interest of Inclusive Loans to Micro- and Small-Sized Enterprises and Provision of Credit Loans (《關於進一步延長普惠小微企業貸款延期還本付息政策和信用貸款支持政策實施期限有關事宜的通知》（銀發[2021]81號）the "**March 29 Notice**")), providing that for inclusive loans to micro- and small-sized enterprises due between April 1, 2021 to December 31, 2021, shall be extended by negotiation between the bank and the borrower based on the principle of "due extension".

As of the Latest Practicable Date, the COVID-19 outbreak has been generally under control in most parts of China and in Guangdong Province and the injection of COVID-19 vaccine is already underway across China. Nevertheless, the Chinese economy is still facing challenges including uncertainty of COVID-19 spread and complicated international geopolitics. As a result, China's banking industry will remain competitive and may be affected by fluctuations in macroeconomy environment and market conditions.

## OVERVIEW

The banking industry in the PRC is highly regulated. The principal regulatory authorities in the PRC banking industry include CBIRC and PBoC. CBIRC is responsible for supervising and regulating banking financial institutions. PBoC, as the central bank of the PRC, is responsible for formulating and implementing monetary policies, formulating major laws and regulations as well as the basic policies for a prudent regulatory system to govern the banking industry. The principal laws and regulations relating to the banking industry in China are the PRC Commercial Bank Law (revised in 2015) (《中國商業銀行法（2015修正）》), the PRC PBoC Law (revised in 2003) (《中國人民銀行法（2003修正）》), the PRC Banking Supervision and Regulatory Law (revised in 2006) (《中國銀行業監督管理法（2006修正）》), and the respective rules, guidelines and regulatory documents established thereunder.

## PRINCIPAL REGULATORS

### CBIRC

CBRC and CIRC merged to establish CBIRC under the State Council of the People's Republic of China (the State Council). CBIRC is the principal regulatory authority in the PRC responsible for the supervision and regulation of banking financial institutions operating in the PRC, including commercial banks, urban credit cooperatives, rural credit cooperatives, other deposit-taking financial institutions and policy banks, as well as certain non-bank financial institutions. CBIRC is also responsible for the supervision and regulation of entities established by domestic financial institutions outside the PRC and the overseas operations of the above-mentioned banking and non-banking institutions.

Pursuant to the PRC Banking Supervision and Regulatory Law and the Proposal on the Reformation of the Organization of the State Council adopted at the first meeting of the 13th Session of the Standing Committee of the National People's Representative Meeting on March 17, 2018, the primary regulatory functions and supervising measures of the CBIRC over the banking industry include: (i) examining and approving the establishment, change and termination of banking institutions and their scope of business, as well as granting banking licenses to commercial banks and their branches; (ii) regulating the business activities of banking institutions, including their products and services offered; (iii) approving and overseeing qualification requirements for directors and senior management of banking institutions; (iv) conducting on-site examinations and off-site surveillance of the business activities and risk levels of banking institutions; (v) formulating emergency response systems and plans by cooperating with related departments; (vi) imposing corrective and punitive measures for violations of applicable banking regulations; (vii) preparing statistics and financial statements of national banking institutions and publishing the same in accordance with relevant requirements of the PRC government; and (viii) taking over or procuring the restructuring of a banking institution which may materially impact the lawful rights and interests of depositors and other customers when there is, or is likely to be, a credit crisis in accordance with laws.

CBIRC, through its headquarters in Beijing and its offices throughout the PRC, monitors the operations of banks and their branches through on-site examinations and off-site surveillance. On-site examinations generally include inspecting the business premises and electronic data systems of banks, interviewing their employees, senior management and directors for explanation of major issues relating to the banks' operations and risk management, as well as reviewing documents and data maintained by the banks. Off-site surveillance generally includes reviewing business reports, financial statements and other reports regularly submitted by the banks.

If a financial institution is not in compliance with an applicable banking regulation, CBIRC is authorized to impose corrective and punitive measures, including imposing fines, ordering the suspension of certain business activities, withholding the approval for engaging in new businesses, imposing restrictions on distribution of dividends and other income, and transfer of assets, ordering the transfer of shares of the controlling shareholder(s) or the limitation of the rights of such shareholder(s), ordering the restructuring of the board of directors or senior management or imposing restrictions on their rights, and withholding the approval for opening new branches. In extreme cases or when a commercial bank fails to take corrective action within the time period specified by CBIRC, CBIRC may order the financial institution to suspend operations and may revoke its business license. In the event of existing or potential credit crisis within a financial institution, which may materially impact the rights and interests of depositors and other customers, CBIRC may take over such financial institution, or procure its restructuring.

**PBoC and Inter-departmental Coordination Joint Meeting for Financial Supervision**

As the central bank of the PRC, PBoC is responsible for formulating and implementing monetary policies and maintaining the stability of the PRC financial markets. According to the PRC PBoC Law and relevant regulations, PBoC is empowered to perform the following primary duties: (i) issuing and implementing orders and regulations in relation to its duties; (ii) formulating and implementing monetary policy in accordance with laws; (iii) issuing Renminbi and administering its circulation; (iv) supervising and regulating the interbank lending market and the interbank bond market; (v) implementing foreign exchange controls and supervising and regulating the interbank foreign exchange market; (vi) supervising and regulating the gold market; (vii) holding, administering and managing the state foreign exchange reserve and gold reserve; (viii) managing the national treasury; (ix) safeguarding the normal operation of payment and settlement systems; (x) formulating and coordinating anti-money laundering initiatives in the financial industry and being responsible for monitoring fund flow in respect of anti-money laundering; (xi) taking responsibility for the statistics, surveys, analysis and forecasts of the financial industry; (xii) participating in relevant international financial activities as the central bank of the PRC; and (xiii) other duties assigned by the State Council.

On August 15, 2013, the State Council issued the Reply of the State Council on the Establishment of the Inter-departmental Coordination Joint Meeting System for Financial Supervision (《國務院關於同意建立金融監管協調部際聯席會議制度的批覆》), pursuant to which PBoC was authorized to preside over the joint meeting, with CBRC, CSRC, CIRC and SAFE as the key members. Other government departments such as NDRC and MOF may be invited to attend the joint meetings, where necessary.

The Reformation of the Organization of the State Council was adopted at the first meeting of the 13th Session of the Standing Committee of the National People's Representative Meeting on March 17, 2018, pursuant to which the responsibilities of the CBRC and CIRC of drafting proposals for major laws and regulations and maintaining prudent management of basic systems of the banking and insurance industries were taken over by PBoC.

**Other Regulatory Authorities**

In addition to the above regulators, commercial banks in the PRC are also subject to the supervision and regulation by other regulatory authorities, including State Administration of Foreign Exchange, State Administration for Market Regulation, China Securities Regulatory Commission, National Audit Office, Ministry of Finance, State Administration of Taxation, National Development and Reform Commission and their respective subordinate authorities.

**LICENSING REQUIREMENTS**

**Basic Requirements**

The PRC Commercial Bank Law sets forth the authorized business scope and the licensing and other requirements for commercial banks. Rural commercial banks, county banks and other rural small and medium financial institutions are also required to comply with the Measures for the Implementation of Administrative Licensing Matters Concerning Rural Small and Medium Banking Institutions (《農村中小銀行機構行政許可事項實施辦法》) promulgated by CBIRC which took effect on December 26, 2019.

The establishment of a rural commercial bank requires the approval and issuance of a business license by the local offices of CBIRC. In general, the local offices of CBIRC will not approve an application for establishment of a rural commercial bank unless certain conditions are satisfied, including, amongst others: (i) the articles of association shall be in compliance with the PRC Company Law, the PRC Commercial Bank Law and the relevant requirements of CBIRC; (ii) it shall be established on the base of a rural commercial bank, rural cooperative bank or rural credit cooperatives; (iii) the registered capital shall be equal to its paid-up capital, and the minimum registered capital of a rural commercial bank is RMB50 million; (iv) the directors and senior management shall possess the requisite qualifications and the proposed commercial bank shall have qualified practitioners who are familiar with the banking business; (v) there shall be well-established organizational structure and management system; (vi) there shall be qualified founders; and (vii) the business premises, safety and security measures and other facilities shall satisfy the needs of the business operation.

The establishment of a county bank shall be approved by the local offices of CBIRC through the issuance of business license. In general, no approval will be granted by the local offices of CBIRC for the establishment of a county bank unless the following conditions are fulfilled, including but not limited to: (i) its articles of association are in compliance with the PRC Company Law, the PRC Commercial Bank Law and the relevant requirements of CBIRC; (ii) its promoters have the requisite qualification and at least one of them is a banking financial institution; (iii) its registered capital is equal to its paid-up capital subject to a minimum of RMB3 million for a county bank to be established at township level or RMB1 million for a county bank to be established at village level or RMB1,000 million for an investment management-oriented county bank and RMB100 million for a "cross-county" county bank; (iv) its directors and senior management possess the requisite qualifications and the proposed county banks have qualified practitioners who are familiar with the banking business; (v) it has well-established organizational structure, management system and risk management system; (vi) it has clear business strategies to support the development of Sannong and SMEs; (vii) its business premises, safety and security measures and other facilities satisfy the needs of the business operation; (viii) it has the information technology structure necessary for business operation, which is safe and in compliance with the relevant laws and regulations, and possesses the technologies and measures to ensure the effectiveness and safety of such information technology structure; and (ix) other prudent requirement imposed by the CBIRC.

**Significant Changes**

Approval from CBIRC or its local office is required for significant changes of rural commercial banks, including:

- change of the name;
- change of registered capital;
- change of domicile of headquarters or branches;
- change of business scope and variety of products;
- qualification of director or senior management;
- change of form of organization;
- change of shareholders holding 5% or more of the rural commercial bank's total share capital;
- amendments to the articles of association;
- establishment or termination of branches;
- merger or division; and
- dissolution and liquidation.

**Establishment of Outlets**

To establish a branch based on business needs, a rural commercial bank must apply to the relevant local office of CBIRC for approval and issuance of a financial license and apply to the market regulation department for approval and issuance of a business license. The establishment of outlets by a rural commercial bank must comply with the Regulations on Administrative Matters of Small Rural Banks (《農村中小銀行機構行政許可事項實施辦法》) issued by CBIRC on December 26, 2019, which requires that the establishment of outlets by rural commercial banks shall apply for approval and issue of permit of financial institution from the local office of CBIRC as well as, obtain a business license after registration with the regulatory authority.

The application for establishment of a branch of a rural commercial bank shall satisfy the following conditions. The applicant shall (i) have a definite rural financial development plan and an established rural financial operation model; (ii) have a history of more than two years; (iii) have a registered capital of not less than RMB1 billion; (iv) have good regulatory rating; (v) have good corporate governance, proper and effective internal control; (vi) have satisfactory major regulatory indices, i.e. non-performing loan ratio of less than 3% and capital adequacy ratio of not less than 12%; (vii) have sufficient funding for operation; (viii) have comprehensive and compliant IT system and data security system, standardized data management system, technology and measures to maintain the continuous, effective and safe operation; (ix) have no material illegal or incompliant incidents or internal management issues in last two years, or remedial measures of such incidents or issues are accepted by the CBIRC or its local offices as effective; and (x) other conditions as prudently required by the regulatory documents of the CBIRC. The application for the establishment of a branch of a rural commercial bank shall be submitted by its legal entity to the municipal office or provincial office of the place of establishment, which will be then reviewed and decided by the provincial office. The decision of approval shall be reported to the CBIRC. In order to commence operation, a branch of a rural commercial bank shall satisfy the following conditions: (i) its working capital is in place; (ii) it has qualified senior management and qualified practitioners who are familiar with the banking business; (iii) it has an organizational structure and rules and regulations commensurate with its business development; (iv) it has business premises, security measures and other facilities commensurate with its business operation; and (v) it has an information technology department commensurate with its operations, has a necessary, safe and compliant information technology system, and has technologies and measures to ensure the effective and safe operation of the information technology system at its level.

The application for establishment of a sub-branch of a rural commercial bank in its place of registration shall satisfy the following conditions. The applicant shall (i) have a definite rural financial development plan and an established rural financial operation model; (ii) have good corporate governance, proper and effective internal control; (iii) have met the regulatory requirements in relation to its main prudential supervision indicators; (iv) have sufficient funding for operation; (v) have comprehensive and compliant IT system and data security system, standardized data management system, technology and measures to maintain the continuous, effective and safe operation; (vi) have no material illegal or incompliant incidents or internal management issues in last year, or remedial measures of such incidents or issues are accepted by the CBIRC or its local offices as effective; and (vii) other conditions as prudently required by the regulatory documents of the CBIRC. The application for establishment of a sub-branch of a rural commercial bank out of its place of registration shall satisfy the following conditions. The applicant shall (i) have a definite rural financial development plan and an established rural financial operation model; (ii) have a history of more than one year; (iii) have a registered capital of not less than RMB0.5 billion; (iv) have good regulatory rating; (v) have good corporate governance, proper and effective internal control; (vi) have satisfactory major regulatory indices; (vii) have sufficient funding for operation; (viii) have comprehensive and compliant IT system and data security system, standardized data management system, technology and measures to maintain the continuous, effective and safe operation; (ix) have no material illegal or incompliant incidents or internal management issues in last two years, or remedial measures of such incidents or issues are accepted by the CBIRC or its local offices as effective; and (x) other conditions as prudently required by the regulatory documents of the CBIRC. The proposed establishment of a sub-branch of a rural commercial bank shall be submitted by its legal entity to the approval authority. The application for operation shall be the handled, considered and approved by the municipal or provincial office of the CBIRC. In order to commence operation, a sub-branch shall satisfy the following conditions: (i) its working capital is in place; (ii) it has qualified senior management and qualified practitioners who are familiar with the banking business; and (iii) it has business premises, security measures and other facilities commensurate with its business operation.

The application for establishment of an office of a rural commercial bank shall satisfy the following conditions. The applicant shall (i) have satisfactory major regulatory indices; (ii) have qualified officers who are familiar with the banking business; (iii) have sufficient funding for operation; (iv) have comprehensive and compliant IT system and data security system, standardized data management system, technology and measures to maintain the continuous, effective and safe operation; (v) have no material illegal or incompliant incidents or internal management issues in last year, or remedial measures of such incidents or issues are accepted by the

CBIRC or its local offices as effective; and (vi) other conditions as prudently required by the regulatory documents of the CBIRC. The application for the establishment of a branch of a rural commercial bank shall be submitted by its legal entity to the municipal office or provincial office of the CBIRC of the place of establishment for approval. The decision of approval shall be reported to the CBIRC. The proposed establishment of an office of a rural commercial bank in its place of registration shall be submitted by its legal entity to the approval authority. The application for operation shall be the handled, considered and approved by the municipal or provincial office of the CBIRC.

**Scope of Business**

Under the PRC Commercial Bank Law, commercial banks in the PRC are permitted to engage in part or all of the following activities:

- taking deposits from the public;
- granting short-term, medium-term and long-term loans;
- effecting domestic and overseas payment settlements;
- accepting and discounting instruments;
- issuing financial bonds;
- acting as the issuing agent, payment agent and underwriter of government bonds;
- dealing in government bonds and financial bonds;
- engaging in interbank lending;
- trading foreign exchange as principal or agent;
- engaging in bank card business;
- providing letter of credit and guarantee services;
- collecting and making payment as agents and acting as insurance agents;
- providing safe deposit box service; and
- other businesses approved by the banking regulatory authorities under the State Council.

Commercial banks in the PRC are required to set forth their scope of business in their articles of association which shall be submitted to the banking regulatory authorities under the State Council for approval. Subject to approval by PBoC, commercial banks in the PRC may engage in settlement and sales of foreign exchange.

## REGULATIONS ON PRINCIPAL ACTIVITIES OF COMMERCIAL BANKS

### Lending

According to the Interim Measures for the Administration of Fixed Asset Loans (《固定資產貸款管理暫行辦法》) promulgated by the CBRC on July 23, 2009, commercial banks are required to establish comprehensive internal control system, manage the entire lending process, establish a risk management system for fixed asset loans and an effective mechanism for balancing different positions and set up appraisal and accountability mechanism for all positions. Commercial banks are also required to strengthen the management of the use of loan and to have effective management of loan extension and repayment. In addition, commercial banks are required to agree with borrowers on contractual terms that are material to controlling credit risks, and establish a loan quality monitoring system and a loan risk alert system.

According to the Interim Measures for the Administration of Working Capital Loans (《流動資金貸款管理暫行辦法》) promulgated by the CBRC on February 12, 2010, commercial banks are required to establish effective internal control mechanism and risk management system to monitor the use of working capital loans, obtain comprehensive information from clients and set up appraisal and accountability mechanism for all positions. They are also required to reasonably and prudently estimate the actual capital demand of customers based on their business operations to determine credit limits without exceeding the customers' actual working capital need. In addition, commercial banks are required to clearly specify in the loan agreement the lawful use of the working capital loan. Particularly, working capital loans shall not be used for fixed asset or equity investment, or for other prohibited purposes.

According to the Guidelines on Risk Management for M&A Loans by Commercial Banks (《商業銀行併購貸款風險管理指引》) promulgated by the CBRC on February 10, 2015, a commercial bank with legal person status intending to operate M&A lending business shall have comprehensive and effective risk management and internal control system and shall have capital adequacy ratio of not less than 10%. It shall be in compliance with all other regulatory requirements and shall have professional teams responsible for due diligence and risk assessment for M&A loans. According to the guidelines, commercial banks shall determine the operation process and internal control and report the same to the regulatory authority before operating M&A loan business. Commercial banks shall cease to manage new M&A loan business if any of the aforementioned conditions is not satisfied.

According to the Guidelines on the Management of Risks of Real Estate Loans Granted by Commercial Banks (《商業銀行房地產貸款風險管理指引》) issued by the CBRC on August 30, 2004, commercial banks are required to establish criteria for the review and approval of real estate loans (including land reserve loans, real estate development loans, personal residential mortgage loans, and commercial mortgage loans) and to develop risk management and internal control systems to manage the market risk, legal risk, and operational risk in the real estate loan market. Commercial banks are not allowed to grant loans in any form to projects without state-owned land use permits, construction land planning permits, planning permits for construction project and construction permits for construction project. CBRC and its local offices conduct periodic inspections on the implementation of such guidelines.

According to the Guidelines on Project Finance Business (《項目融資業務指引》) promulgated by the CBRC on July 18, 2009, financial institutions are required to establish a comprehensive operational process and risk management system. Financial institutions are required to fully identify and evaluate risks associated with project development and operation, including policy risk, financing risk, completion risk, product market risk, over-budget risk, raw material risk, operational risk, exchange rate risk, environmental risk and other risks. Financial institutions are also required to focus on the assessment of the solvency of borrowers so that they can evaluate risks associated with technology and financial feasibility as well as sources for loan repayment. In addition, financial institutions must ensure that borrowers set up a designated account to retain all revenues from the financing projects, and must monitor such account and take actions in case of unusual movements.

According to the Guiding Opinions on Further Supporting the Restructuring and Revitalization of Key Industries and Curbing Overcapacity in Certain Industries through Financial Services (《關於進一步做好金融服務支持重點產業調整振興和抑制部分行業產能過剩的指導意見》) jointly promulgated by PBoC, CBRC, CSRC and the CIRC on December 22, 2009, financial institutions shall, according to national industrial policy and financial control requirements, extend credit based on the principle of differential treatment. For companies and projects that revitalize key industries, meet market entry requirements and comply with the bank's lending policy, the regulations provide that credit extension shall be made in a timely and efficient manner. For those that do not meet industry policies, market entrance requirement, technology standards and funding requirement, the regulations provide that no credit shall be extended. For projects in industries with overcapacity, the regulations provide that credit extension shall be strictly examined prior to approval.

According to the Interim Measures for the Administration of Personal Loans (《個人貸款管理暫行辦法》) issued by the CBRC on February 12, 2010, commercial banks are required to establish a set of effective end-to-end management framework and risk management system for personal loans and specify certain conditions for personal loan applications as well as relevant laws and policies regulating the use of personal loans. Commercial banks are required to specify in the loan agreement the use of personal loans, and are prohibited from extending personal loans without designated purpose. The term and interest rate of personal loan shall be subject to government regulations. Commercial banks shall establish their control measures to manage the income and loan payment ratio of borrowers, taking into account their income, debts, expenses, use of loan and collaterals, to determine the amount of loan repayments and term of loan so as to ensure that the borrowers are able to repay the loans.

According to the Guidelines on the Risk Management of Risks of Credits Granted by Commercial Banks to Group Borrowers (《商業銀行集團客戶授信業務風險管理指引》) issued by the CBRC on June 4, 2010, commercial banks are required to establish a risk management system to control the credit granted to group borrowers, which shall be filed with the banking regulatory authorities. The credit balance of a commercial bank to a single group customer (including all credit risk exposures listed under paragraph 2 of article 4) shall not exceed 15% of its net capital; otherwise, the credit extended will be deemed as having exceeded its risk tolerance capacity. If the credit needs of a group customer exceeds the risk tolerance capacity of a bank, the commercial bank shall take measures to diversify the risks through syndicated loans, loan participation and loan transfer. When calculating the credit balance, the amount of cash deposit, pledged bank certificates of deposit and debt securities issued by the PRC central and local government provided by the customer may be deducted. In line with the prudent supervision requirement, the banking regulatory authorities may lower the ratio of the credit balance and net capital of a commercial bank to a single group borrower.

On September 29, 2010, PBoC and CBRC issued the Notice of PBoC and CBRC on Issues concerning the Improvement of Differential Housing Credit Policies (《中國人民銀行、中國銀行業監督管理委員會關於完善差

別化住房信貸政策有關問題的通知》), which implements the Notice of the State Council on Firmly Curbing Excessive Rise of Housing Prices in Certain Cities (《國務院關於堅決遏制部分城市房價過快上漲的通知》) in respect of housing loans. These regulations require all commercial banks not to grant housing loans to families who are purchasing the third or more residential property or to non-local residents who are unable to provide evidence of local tax payment or social security fund contribution of no less than one year. With respect to a first-time purchase of any commercial residential property, the minimum down payment ratio is set at 30%, whilst the minimum down payment for a second-time homebuyer is 50% and the interest rate shall be no less than 1.1 times PBoC benchmark lending rate.

According to the Guidelines of Green Credit (《綠色信貸指引》) issued by the CBRC on January 29, 2012, financial institutions are required to support energy saving, emission reduction and environment protection, and avoid the environmental and social risks of their customers. Under these guidelines, financial institutions are required to effectively identify, measure, monitor and control environmental and social risks in their credit business activities, and to establish relevant risk management systems. Banks are also required to explicitly warrant to support green credit, and to formulate specific guidelines for credit extensions to restricted industries and those with substantial environmental and social risks, carry out differential and dynamic credit extension policies, and implement risk management systems. Particularly, financial institutions are required to conduct due diligence investigation on the environmental and social risks of customers based on their profiles. No loan shall be extended to customer not satisfying with the relevant requirements on environmental and social performance. For customers with material environmental and social risks, financial institutions shall also require them to submit environmental and social risks report and specify the terms for controlling such risks in the loan agreements. In addition, financial institutions shall implement specific post-loan management measures targeting the customers with potential material environmental and social risks and take appropriate risk mitigation measures in a timely manner, and report to the regulatory authorities in the event of any material environmental and social risk events.

According to the Notice of the General Office of the State Council on Further Improvement in the Market Regulation and Control of Real Estate Market (《國務院辦公廳關於繼續做好房地產市場調控工作的通知》) issued by the General Office of the State Council on February 26, 2013, commercial banks are further prohibited from extending loans to real estate developers which are engaged in illegal activities such as possessing idle land, land speculation, hoarding properties and driving up prices.

On September 29, 2014, PBoC and CBRC issued the Notice of PBoC and CBRC on Issues concerning the Further Improvement of Housing Financial Services (《中國人民銀行、中國銀行業監督管理委員會關於進一步做好住房金融服務工作的通知》), which sets the minimum down payment ratio at 30% and the minimum interest rate at 0.7 times PBoC benchmark interest rates on loans for a first-time home buyer for self-use. The regulation provides that financial institutions shall apply the policies for first home buyers to families who already own a residential property, have fully repaid the relevant residential mortgage loans, and are applying for a loan to purchase another ordinary residential property to improve their living conditions. In cities that have lifted or have not imposed the restrictions for property purchase, where a family that owns two or more residential properties, has repaid in full all relevant loans and applies for a loan to purchase another residential housing, financial institutions shall prudently determine the down payment ratio and the interest rate, taking into account the borrower's ability to make repayment and credit standing.

According to the Opinions of the State Council on Strengthening the Administration of Local Government Debts (《國務院關於加強地方政府性債務管理的意見》) issued by the State Council on September

21, 2014, financial institutions shall not provide financing to or seek guarantee from local governments in violation of applicable laws or regulations. Purchasing of bonds issued by local governments by financial institutions shall be in compliance with regulatory requirements. When providing financing to enterprises whose debt may become the government's contingent liabilities, financial institutions shall strictly regulate credit management by practicably enhancing risk identification and risk management.

According to the Guidelines of Energy Efficiency Loans (《能效信貸指引》) issued by the CBRC and National Development and Reform Commission on January 13, 2015, financial institutions are encouraged to provide credit financing to energy consumption entities to support energy saving and emission reduction. According to the guidelines, financial institutions may extend credit to energy efficiency projects of energy consumption entities and energy performance contracting projects of energy-saving service companies. Financial institutions shall further improve the credit risk management for energy efficiency loans through various approaches, including (i) setting loan approval requirements for energy efficiency projects, energy consumption entities and energy-saving service companies; (ii) strengthening due diligence on energy efficiency credit extension by obtaining comprehensive information on borrowers for risk assessment; (iii) improving management of energy efficiency loan contracts and post-loan management; and (iv) establishing credit supervision and risk warning mechanisms.

On March 30, 2015, PBoC, the Ministry of Housing and Urban-Rural Development and CBRC issued the Notice of PBoC, the Ministry of Housing and Urban-Rural Development and CBRC on the Issues concerning Housing Loan Policies for Individuals (《中國人民銀行、住房城鄉建設部、中國銀行業監督管理委員會關於個人住房貸款政策有關問題的通知》), which provides that if a household owns one residential property but has not fully repaid the corresponding mortgage loan and applies for a commercial housing loan again to purchase an ordinary residential property to improve living conditions, the minimum down payment ratio has been adjusted to not less than 40%. The specific amount of the down payment and interest rate shall be determined by the relevant financial institutions based on factors including the credit standing and solvency of the borrowers. All units under PBoC and CBRC shall communicate effectively with local governments according to local conditions and guidance on differential classifications, and reinforce the supervision on the implementation of differentiated housing loan policies by financial institutions. Based on the standardized credit policies in China, these units shall guide banking financial institutions on reasonably determining the minimum down payment and interest rate for personal commercial housing loans, closely track and evaluate the implementation and effects of housing credit policies, prevent risks effectively and promote healthy and stable development of local real estate markets.

On September 24, 2015, PBoC and CBRC issued the Notice of PBoC and CBRC on Issues concerning the Further Improvement of Differential Housing Credit Policies (《中國人民銀行、中國銀行業監督管理委員會關於進一步完善差別化住房信貸政策有關問題的通知》), which states that for personal commercial housing loans provided to families for the first-time purchase of ordinary housing, the minimum down payment ratio shall be adjusted to not less than 25% in cities that have not imposed restriction on property purchase. Each of the units under PBoC and CBRC shall strengthen communication with local governments according to local conditions and providing guidance on differential classifications. Based on different situations in different cities under its governance, each unit shall give guidance to the local government for determining the minimum down payment for personal commercial housing loans by integrating self-regulatory mechanism for provincial market interest rate with local situations in accordance with the standardized credit policies in China.

On February 1, 2016, PBoC and CBRC issued the Notice of PBoC and CBRC on Issues concerning the Adjustment on Residential Mortgage Loan Policies (《中國人民銀行、中國銀行業監督管理委員會關於調整個人住房貸款政策有關問題的通知》), which requires that in cities that have not imposed home purchasing restrictions, the minimum down payment ratio for personal commercial housing loans provided to families for the first-time purchase of ordinary housing shall be 25% in principle with a downward floating range of five percentage points. The minimum down payment ratio shall be adjusted to no less than 30% for households possessing one residential property with outstanding loans but applying for more personal commercial housing loans to purchase ordinary housing to improve living conditions. In cities that have imposed home purchasing restrictions, the residential mortgage loan policies shall be carried out according to the existing stipulations. Banking financial institutions shall determine the proportion of down payment and interest rates according to the interest rate regulation of the respective provincial markets, their own policy and risk prevention measures in respect of personal commercial housing loans and the credit level and payment ability of borrowers.

On August 25, 2019, the PBoC issued the Notice of the People's Bank of China (2019) No.16, pursuant to which the interest rates of mortgage loans extended from October 8, 2019 shall be based on the latest market monthly interest rate plus certain base points. The interest rate of mortgage loan for first time residential property buyers shall not be less than the market interest rate of corresponding duration. The minimum interest rate of mortgage loan for second residential property buyers shall be the market interest rate of corresponding duration plus 60 basis points. Furthermore, the minimum interest rate of commercial property mortgage loan shall be the market interest rate of corresponding duration plus 60 basis points. The interest rate of mortgage loans of residential properties under the housing fund scheme remains unchanged. The top up of interest rate shall reflect the national and local government policies on residential property financing and the risk profile and shall remain unchanged during the term of the agreement.

On December 28, 2020, the PBoC and CBIRC promulgated the Notice of PBoC and CBIRC on Establishing a Centralization Management System for Real Estate Loans of Banking Financial Institutions (《中國人民銀行、中國銀行保險監督管理委員會關於建立銀行業金融機構房地產貸款集中度管理制度的通知》). The PBoC and CIBRC shall implement categorized management on the centralization of real estate loans based on the asset scale and type of organization of the financial institutions in the banking industry, among which the maximum proportions of real estate loans for large-sized PRC banks and medium-sized PRC banks, and rural cooperative organizations in large- and medium-sized cities and urban areas shall be 40.0%, 27.5% and 22.5%, respectively. As a rural commercial bank in large- and medium-sized city, our Bank is subject to 22.5% limitation pursuant to the relevant regulatory requirements. Meanwhile, the maximum proportions of real estate loans for personal residential mortgage loans shall be 17.5%. As at March 31, 2021, as a percentage of the balance of total loans of our Bank of the same date, the balances of real estate loans and personal residential mortgage loans of our Bank accounted for 20.5% and 14.2%, respectively.

According to the Advice of MOF, PBoC and CBRC on the Refinancing of Project-in-Progress of the Financing Platforms of Local Governments (《財政部、人民銀行、銀監會關於妥善解決地方政府融資平台公司在建項目後續融資問題的意見》), the Advice of CBRC on the Strengthened Risk Management of the Loans through Financing Platforms (《中國銀監會關於加強融資平台貸款風險管理的指導意見》), the Notice of CBRC on the Effective Risk Management of Loans through Financial Platforms of Local Governments in 2011 (《中國銀監會關於切實做好2011年地方政府融資平台貸款風險監管工作的通知》), and the Advice of CBRC on the Risk Management of Loans through Financial Platforms of Local Governments in 2012 (《中國銀監會關於加強2012年地方政府融資平台貸款風險監管的指導意見》), financial institutions shall strictly comply with the requirements of pre-disbursement, disbursement and post-disbursement examinations for loans to financial platforms of local governments. Loans shall be prudently provided to the financial platforms of local governments and shall be accurately classified. The loans shall be adjusted dynamically to accurately reflect and assess the risks associated with the loans. Financial institutions shall consider the total liabilities of local governments and the potential risks and estimated losses of loans to financial platforms of local governments so as to make adequate provision for impairment and to calculate the risk-weighted capital adequacy ratio on the basis of full, standard, half and no cash flow coverage. According to the Advice of CBRC on the Risk Management of Loans through Financial Platforms of Local Governments in 2013 (《中國銀監會關於加強2013年地方政府融資平臺貸款風險監管的指導意見》), banks shall determine the ceilings of loans to financial platforms of local governments and the financing vehicles of local governments shall not be allowed to expand. The percentage of loans to total platform loans extended to financing vehicles of local governments having cash flow coverage of less than 100% or having gearing ratio above 80% shall not exceed the level in previous year. Furthermore, the banks shall take measures to reduce the level of loans to such platforms and increase the efforts of loan collection.

On January 5, 2018, the former CBRC issued the Measures for the Administration of Entrusted Loans of Commercial Banks (《商業銀行委託貸款管理辦法》), which specifies: (1) entrusted loan business is an agency service of a commercial bank. As a trustee, a commercial bank shall not determine the borrowers for the clients, not participate in loan decisions of the clients, not provide guarantee in any form for the entrusted loan, not advance funds to grant the entrusted loan for the clients, not determine the guarantors for the borrowers or advance funds to repay the entrusted loan for the borrowers, or directly or indirectly undertake entrusted loans with credit funds or wealth management funds, not enter into other contracts or agreements that change the nature of the entrusted loan business; (2) a commercial bank shall not accept others' funds under entrusted management, banks' credit funds, various special funds for specific purposes (save as otherwise specified by relevant departments of the State Council), other debt funds (save as otherwise specified by relevant departments of the State Council) and funds of which the sources cannot be proven, to grant entrusted loans, except for funds raised from issuance of bonds by a business group and used in the group; (3) the funds shall not be used for production, operation or investment in fields and for purposes prohibited by the state, not be used for investments in bonds, futures, financial derivatives and asset management products, etc., not be used as registered capital or for registration and capital verification and not be used for equity capital investment or capital and share increase, etc. (save as otherwise specified by regulatory authorities), nor shall the funds be used for other purposes in violation of regulatory provisions; (4) commercial banks shall set up a sound entrusted loan management information system to ensure the business information is complete, continuous, accurate and traceable; (5) a commercial bank shall not accept any entrusted loan application from a client which is a financial assets management company or an institution engaging in loan business; (6) a commercial bank shall not divert the funds of one client to another.

CBRC has also issued relevant guidelines and measures to control risks relating to the loans to related parties. Please see "Supervision and Regulation — Corporate Governance and Internal Control — Related Party Transactions."

**Foreign Exchange Business**

Commercial banks are required to obtain approvals from PBoC, CBIRC and SAFE or their branches/local offices to conduct the business of foreign exchange. Under the PRC's anti-money laundering laws and regulations, PRC financial institutions are required to report to the Anti-money Laundering Monitoring and Analysis Center any large or suspicious foreign exchange transactions which they encounter on a timely basis.

**Securities and Assets Management Business**

Generally speaking, PRC commercial banks are not allowed to engage in equity securities trading and underwriting business. However, they are allowed to:

- underwrite, buy and sell debt securities issued by the PRC central and local government, financial bonds and bonds issued by qualified non-financial institutions;
- act as an agent for securities trading (including bonds issued by the PRC government, financial institutions and other corporate entities);
- offer comprehensive asset management and consultancy service to institutions and retail investors;
- act as a financial advisor to large infrastructure projects, M&As and bankruptcy restructuring;
- act as the trustee for funds such as securities investment funds and enterprise annuity funds.

According to the Management Measures for Custody of Securities Investment Funds (《證券投資基金託管業務管理辦法》) published by CSRC on July 10, 2020, a commercial bank is permitted to apply for the right to engage in custodian business for securities investment funds, if amongst other requirements, such commercial bank has net assets of no less than RMB20 billion and if its risk control indicators meet the relevant requirements of regulatory authorities. The fund custodian must make sure to separate fund custody business from other businesses and isolate the fund assets. CSRC will examine and approve the qualifications of custody of commercial banks for fund custody, and CSRC and CBRC jointly supervise the fund custody business activities of commercial banks. According to the Management Measures for Enterprise Annuity Fund (《企業年金基金管理辦法》) jointly issued and amended by the Ministry of Human Resources and Social Security, CBRC, CSRC and CIRC on April 30, 2015, commercial banks shall establish independent custody and investment department when acting as the custodian of enterprise annuity plans. In addition, the office area, operation management process and business system must be separated strictly. The senior management members directly in charge and general staff in the custody business and investment department shall not hold concurrent posts mutually.

According to the Regulation on the Recognition of Standardized Debt Assets (《標準化債權類資產認定規則》) issued by the PBoC, CBIRC, CSRC and SAFE on July 3, 2020, standardized debt assets include fixed income securities (such as debt securities and asset-backed securities legally issued), mainly include treasury bonds, notes of central bank, local government debt securities, quasi-government debt securities, financial institution bonds, debt instrument issued by non-financial institutions, corporate bonds, company notes, debt securities of international institutions, inter-bank certificates of deposits, credit asset-backed securities, asset-backed securities, securities backed by assets listing on stock exchange and public fixed income securities investment funds. Other debt securities may be recognized as standardized debt securities if they meet the following criteria: (i) the securities are equally divided and tradeable; (ii) sufficient information disclosure; (iii) they are centrally registered and under independent custody; (iv) they are reasonably priced and are fairly traded; and (v) they are traded in inter-bank market, stock exchange and other market recognized by the State Council. In addition, issuers may apply to the PBoC for recognition of its standardized debt securities. All other debt securities are non-standardized debt securities except deposits (including certificates of deposits), reverse repurchase debt securities and interbank loans.

On April 27, 2018, PBoC, CBIRC, CSRC and SAFE jointly issued the Asset Management Guiding Opinion, pursuant to which financial institutions are required to adopt a base line for risk management with an aim to serving the real economy. The operation of commercial banks shall be managed prudently in general and shall in compliance with all relevant regulatory rules in every aspects. Services shall be provided to meet economic needs in an aggressive and yet prudent manner so as to maintain the operation of asset management business.

**Insurance Agency Business**

On August 23, 2019, the General Office of the CBIRC published the Administrative Measures on Insurance Agency Business of Commercial Banks (《商業銀行代理保險業務管理辦法》) (the "Insurance Agency Business Measures"), which became effective from October 1, 2019 and repeals several rules promulgated by the CBRC and/or CIRC regulating the insurance agency business of commercial banks. According to this Insurance Agency Business Measures, commercial banks operating insurance agency business shall obtain license from the CBIRC or its local offices and shall strictly abide by the prudent operation rules. The sum of premiums for accident insurance, health insurance, term insurance, whole life insurance, annuity insurance with a period of no less than 10 years, endowment insurance with a period of no less than 10 years, property insurance (excluding investment linked insurance of property insurance companies) shall not be less than 20% of the total premiums of insurance agency business. Commercial banks engaging in insurance agency business shall comply with the rules and regulations in relation to the retrospective administration of insurance sales.

**Wealth Management**

On February 19, 2014, the office of CBRC issued the Guidance Opinions on the Regulation of Wealth Management Business of Banks in 2014 (《關於2014年銀行理財業務監管工作的指導意見》), which requires the reform of the line business department of the bank's wealth management business, and the head office of the bank shall set up a dedicated business department to unify the design of its products, cost accounting and risk control.

On April 18, 2014, the Cooperative Financial Supervision Department of the CBRC issued the Notice on the Strengthened Supervision of Non-standard Debt Assets Business of Small and Medium Rural Financial Institutions (《關於加強農村中小金融機構非標準化債權資產投資業務監管有關事項的通知》), pursuant to which the investment of non-standard debt assets of small and medium rural financial institutions shall be separated from its deposit and loan business. The non-standard debt assets to be invested by application of funds from wealth management business shall have a regulatory rating of second class and above in accordance with the Internal Guidelines of Regulatory Rating of Commercial Banks (《商業銀行監管評級內部指引》) of the CBIRC. The non-standard debt assets to be invested by application of internal funds and deposits from banks and financial institutions shall have a regulatory rating of second class and above and shall have a size of not less than RMB20.0 billion while the business scale shall not exceed 30% of its interbank liabilities, and the balance of total investment (including invested by application of wealth management funds, internal funds and deposits from banks and financial institutions) in non-standard debt assets shall not exceed 4% of its total assets as disclosed in its audited report for the previous year.

On September 26, 2018, the Measures for the Supervision and Administration of the Wealth Management of Commercial Banks (《商業銀行理財業務監督管理辦法》) were promulgated by CBIRC pursuant to which (i) a commercial bank that sells its wealth management products shall not advertise or promise to preserve capital and guarantee profits; (ii) a commercial bank shall conduct its wealth management business through its subsidiaries with independent legal person status. If the conditions are temporarily unavailable, the head office of a commercial bank shall set up a dedicated department for wealth management business to implement centralized and unified management of its wealth management business, and to ensure that the investment and approval of wealth management products are separated. The pre-investment due diligence, risk identification and risk management of wealth management product investment shall be conducted in the same manner as their own loan business. The investment of wealth management products shall be under the unified credit risk management system of the bank; (iii) the balance of all wealth management products of a commercial bank invested in non-standardized debt assets shall not exceed 35% of the net asset of its wealth management products at any time, and shall not exceed 4% of the total assets of such commercial bank disclosed in its audited report for the previous year, the balance of non-standardized debt assets invested in a single debtor and its associated enterprises shall not exceed 10% of the net capital of the commercial bank. Furthermore, a commercial bank is prohibited from providing guarantee or undertaking of repurchase for non-standard debt assets or credit assets under the investment of wealth management products; (iv) all wealth management products shall not be directly invested in credit assets, shall not be directly or indirectly invested in credit assets of the commercial bank itself or in wealth management products issued by the commercial bank itself or by other banking financial institutions, and shall not be directly or indirectly invested in subordinated credit asset-backed securities issued by the commercial bank itself; (v) if the wealth management products are invested in asset management products, the asset management products so invested shall not be reinvested in other asset management products (other than public offering securities investment funds); (vi) no tiered wealth management products shall be issued; and (vii) during the transition period commencing from the implementation date of the Measures for the Supervision and Administration of the Wealth Management of Commercial Banks (商業銀行理財業務監督管理辦法) to the end of 2020, the newly issued wealth management products of a commercial bank shall comply with the requirements of the Measures for the Supervision and Administration of the Wealth Management of Commercial Banks. In respect of existing wealth management products, a commercial bank may issue former products for transition with immature assets invested by existing wealth management products, but it shall strictly restrict the products to the overall size of the existing products, and reduce them in an orderly manner. On July 31, 2020, the Notice of Optimizing Arrangement for the Transitional Period of Asset Management Guiding Opinion to Facilitate Steady Transformation of Asset Management Business (《優化資管新規過渡期安排引導資管業務平穩轉型》的通知) was issued by the PBoC, which expressly stated that in order to facilitate the implementation of Asset Management Guiding Opinion and regulate the transformation of asset management business, upon the consent of the State Council, the PBoC conducted prudent study jointly with the NDRC, MOF, CBRC, CSRC, SAFE and other relevant authorities and decided to extend the transitional period until the end of 2021.

On December 2, 2018, the Regulations of the Management of Wealth Management Subsidiary of Commercial Banks (《商業銀行理財子公司管理辦法》) were issued by CBIRC pursuant to which a commercial bank shall obtain the approval from the banking regulatory authorities for establishing a wealth management subsidiary, and the wealth management subsidiary shall (i) have its memorandum and articles which are in compliance with the Company Law of the People's Republic of China (《中華人民共和國公司法》) and the requirements of the banking regulatory authority of the State Council; (ii) have shareholders who meet the qualification requirements; (iii) have its share capital not less than the minimum prescribed by the Regulations of the Management of Wealth Management Subsidiary of Commercial Banks; (iv) have directors and senior management who meet the qualification requirements and have adequate personnel responsible for research, investment, valuation, risk management in relation to wealth management business; (v) have effective corporate governance, internal control and risk management systems and have information system with related technology and measures ensuring the operation of such systems necessary for the operation, account maintenance and audit of every products of wealth management business; (vi) have proper business premises, safety measures and equipment necessary for wealth management business; and (vii) have other conditions in compliance with the prudent requirements of the banking regulatory authority of the State Council.

According to the Regulation on the Recognition of Standardized Debt Assets (《標準化債權類資產認定規則》) issued by the PBoC, CBIRC, CSRC and SAFE on July 3, 2020, non-standardized debt securities are debt securities not categorized as standardized debt securities, including but not limited to, wealth management products for direct financing issued by Banking Management Registration and Custody Center Co., Ltd. (銀行業理財登記託管中心有限公司), the products in relation to credit assets circulation and transfer of rights to earnings of credit assets issued by Banking Credit Assets Registration and Circulation Center Co., Ltd. (銀行業信貸資產登記流轉中心有限公司), the debt financing plan of Beijing Financial Assets Exchange Limited (北京金融資產交易所有限公司), certificates of income issued by China Securities Interagency Quotation System Co., Ltd. (中證機構間報價系統股份有限公司), debt investment plan and asset-backed plan of Shanghai Insurance Exchange Co., Ltd. (上海保險交易所股份有限公司).

Fee and commission income derived from our wealth management agency service was RMB311.6 million, RMB459.3 million, RMB328.7 million, RMB55.0 million and RMB65.9 million for the years ended December 31, 2018, 2019 and 2020 and for the three months ended March 31, 2020 and 2021, respectively, representing 3.2%, 3.9%, 2.7%, 1.7% and 2.1% of our operating income as of the periods. For details, please see "Financial Information — Results of Operations for The Years Ended December 31, 2018 and 2019 — Net Fee and Commission Income — Fee and Commission Income — Wealth Management Agency Service Fee", "Financial Information — Results of Operations for The Years Ended December 31, 2019 and 2020 — Net Fee and Commission Income — Fee and Commission Income — Wealth Management Agency Service Fee" and "Financial Information — Results of Operations for The Three Months Ended March 31, 2020 and 2021 — Net Fee and Commission Income — Fee and Commission Income — Wealth Management Agency Service Fee".

**Bill Acceptance Business**

Under the PRC Commercial Bank Law (《中國商業銀行法》), in respect of the settlement businesses of commercial banks, including the acceptance and discounts on bills, remittance bills and entrusted fund collection, commercial banks shall make payments on the bills according to the term as required and keep records for all payments and receipts of funds in their books. Commercial banks may not delay or refuse to pay under the bills in violation of the terms of the bills. Commercial banks' policies regarding the time limits for the payment and collection of bills shall be published.

On April 26, 2016, PBoC and CBRC jointly issued the Circular on Strengthening Regulations on Bills Business and Promoting the Healthy Development of the Bills Market (《關於加強票據業務監管促進票據市場健康發展的通知》) ("Circular 126"). Circular 126 requires commercial banks to (i) enhance internal control and management of bills business; (ii) consistently conduct background checks on underlying transactions; (iii) regulate the operational process for bills business; and (iv) conduct self-inspections on risks related to bills business.

**Treasury Business**

On July 30, 2014, the General Office of the CBRC issued the Notice on Strengthening the Supervision of Treasury Business of Rural Cooperative Financial Institutions (Yinjian Banfa [2014] No. 215) (《關於加強農村合作金融機構資金業務監管的通知》), which stipulates that the leverage ratio of treasury business operation of rural cooperative financial institutions with supervision rating above Grade II, including our Bank, shall not exceed 180%, while other non-rural cooperative financial institutions are not limited by such regulatory requirement.

**Interbank Business**

On April 24, 2014, PBoC, CBRC, CSRC, CIRC and SAFE jointly issued the Circular on Regulating Interbank Businesses of Financial Institutions (《關於規範金融機構同業業務的通知》) (Yin Fa [2014] No.127 ("**Circular 127**")), which sets out certain requirements in connection with regulating interbank business operations, the enhancement and improvement in the internal and external management of interbank businesses, and the promotion of compliant and innovative assets and liabilities businesses. For example, (i) the Circular 127 defines and regulates interbank investment and treasury businesses, including interbank lending, interbank deposits, interbank borrowing, interbank payments, reverse repurchase agreements or repurchase agreements; and the Circular 127 also required that interbank businesses (with investment and financing being the core businesses) shall be classified into different categories in accordance with their substance, and shall be managed based on the classification; (ii) reverse repurchase agreements and repurchase agreements shall only include bank acceptance bills, bonds, treasury bills and other financial assets with a reasonable fair value and high liquidity that are traded on the interbank market or securities exchange market; (iii) financial institutions that engage in the business of reverse repurchase agreements and repurchase agreements and interbank investment business shall not accept or provide any direct or indirect, explicit or implicit credit guarantee from or for any third-party financial institutions, except as otherwise permitted by the central government; (iv) financial institutions shall accurately measure risks and set aside capital and make provisions pursuant to the principle of "substance over form" and according to the nature of the underlying assets invested; (v) financial institutions shall determine the financing term in a reasonable and prudent manner; and the term of interbank borrowing may not exceed three years and the term of other interbank financings may not exceed one year, and such terms may not be extended upon their maturity; (vi) the net balance of interbank funds (excluding interbank deposits for settlement purposes) extended by a single commercial bank to another financial institution with legal person status after deducting assets with zero risk weight, may not exceed 50% of the bank's tier-one capital; and the net balance of interbank funds borrowed by a single commercial bank may not exceed one third of its total liabilities; and (vii) financial institutions engaging in interbank businesses shall establish a sound risk management system and internal control system and adopt correct accounting treatments.

On May 8, 2014, the General Office of CBRC issued the Notice on the Regulation of the Management of Interbank Business Conducted by Commercial Banks (《關於規範商業銀行同業業務治理的通知》), which requires commercial banks to establish a management system for interbank businesses based on the scale and complexity of the interbank businesses conducted, and conduct all interbank businesses through specialized departments by the end of September 2014. For the interbank businesses which can be conducted in the form of electronic transactions via financial trading markets, such as interbank borrowing and lending, bonds held under resale agreements and bonds sold under repurchase agreements and interbank certificates of deposits, specialized departments may not entrust other departments or branches to handle them. For the interbank business which cannot be conducted in the form of electronic transactions via financial trading markets, specialized departments may entrust other departments or branches to conduct operations such as marketing and inquiry, project initiation and customer relationship maintenance. The specialized departments, however, must approve the counterparty, amount, term, pricing and contract on a case-by-case basis, and shall be responsible for centralizing accounting treatment and assuming full risk accountability. Commercial banks shall establish a sound management system for the authorization of interbank businesses, improve the credit management policies and the counterparty entry system.

**Business between Banks and Trust Companies**

On August 5, 2010, the CBRC issued the Notice of the CBRC on Regulating the Matters Related to Wealth Management Cooperation between Banks and Trust Companies (《中國銀監會關於規範銀信理財合作業務有關事項的通知》), which requires a commercial bank and a trust company to carry out financing cooperation in wealth management business, and shall observe the following principles: (i) for the wealth management cooperation business carried out by a trust company, the term of its trust product shall not be less than one year; (ii) a balance proportion management shall be implemented in relating to the financing cooperation in wealth management business carried out by a trust company, that is, the balance of its treasury business shall not exceed 30% of the balance of the wealth management cooperation between the banks and trust company; (iii) trust products of a trust company shall not be designed to be open-ended; and (iv) for the investment cooperation a commercial bank and a trust company shall carry out investment in wealth management business between a bank and a trust company, its funds shall not be invested in any equity of unlisted companies in principle.

On January 13, 2011, the CBRC issued the Notice on Enhanced Regulation of the Cooperation between Banks and Trust Companies, pursuant to which commercial banks are required to transfer their off-balance sheet assets under their business with trust companies into their balance sheets. Commercial banks shall submit their proposal of assets transfer to the CBRC or its provincial offices. In general, the balance of loans between banks and trust companies shall be reduced by not less than 25% in every quarter. No distribution of dividend shall be made to a trust company if its provision for compensation of loss is less than 150% of the balance of NPL under the cooperation with a bank or less than 2.5% of the balance of trust loan under the business cooperation.

On November 22, 2017, the CBRC issued the Notice on the Regulation of Banking and Trust Business, pursuant to which (i) commercial banks are required to include the credit risk of is banking business under the centralized risk management on the basis of the nature instead of the classification of the risk and shall comply with the requirement of risk concentration; (ii) commercial banks are required to classify the risks in banking business in accordance with the all-through management principle on the basis of profile of risks and adequate provision shall be made according to the nature of the underlying assets; (iii) in respect of the cooperation between banking and trust businesses, (a) risk shall be managed on the basis of the nature of business; (b) risk shall not be covered up to avoid the supervision of the allocation of fund, classification of assets, provision and capital distribution; and (c) balance sheet items shall not be transferred out of the balance sheet through the business with trust company; (iv) commercial banks shall have a system to carefully select trust companies for business cooperation by taking into consideration the risk management and professional investment skills of trust companies; and (v) the business cooperation between commercial banks and trust companies shall not have their investment in real estate, government financing vehicles, stock market, industries with excessive productivity and others which are prohibited for investment.

**Electronic Banking**

On January 26, 2006, the CBRC issued the Administrative Measures for Electronic Banking (《電子銀行業務管理辦法》), which requires commercial banks seeking to establish electronic banking to establish a relatively sound risk management system and internal control system, and to adopt security measures to ensure confidentiality of customer information and prevent unauthorized use of electronic bank accounts. In addition, within one year before applying for the establishment of electronic banking, the commercial bank must not have any major incidents in relation to its key information management systems and business processing systems.

On August 9, 2011, the CBRC issued the Notice on Enhancing the Management of Customer Information of Electronic Banking (《關於加強電子銀行客戶信息管理工作的通知》), which stresses the importance of commercial banks being committed to the work concerning the security and confidentiality of customer information. Without customers' authorization, commercial banks shall not directly or indirectly provide customers' sensitive information to third-party organizations. A unified electronic banking management department shall be specified by commercial banks for the electronic funds transfer and payment business in order to ensure safe, stable and ongoing operations of the business.

On December 31, 2015, the State Council published the Plan for Promoting Inclusive Finance (2016-2020) (《推進普惠金融發展規劃》) to guide the financial institutions to actively develop the electronic payment method and gradually construct a business channel systems consisting of electronic payment channels and physical networks which complement each other.

**Credit Card**

On January 5, 1999, PBoC issued the Regulations of Card Business of Commercial Banks (《銀行卡業務管理辦法》). A commercial bank must satisfy certain requirements before it can commence bank card business. Commercial banks are required to carefully investigate the credit conditions of credit card holders and to determine the scale and form of guarantee according to the creditworthiness. The creditworthiness of card holders shall be reviewed regularly and to adjust their respective credit limits accordingly.

On January 13, 2011, CBRC issued the Administrative Measures on Supervision of the Credit Card Business of Commercial Banks (《商業銀行信用卡業務監督管理辦法》), which stipulates certain conditions for the credit card business by commercial banks, including the prior approval of CBRC and effective internal control, risk management and accountability system. Commercial banks shall provide sufficient relevant information disclosure in respect of business risks and establish a corresponding complaint handling mechanism for their credit card business.

On April 15, 2016, PBoC issued the Notice on Matters related to Credit Card Business (《中國人民銀行關於信用卡業務有關事項的通知》). To regulate the credit card market and services, to safeguard the legal interest of credit card holders and to promote the healthy development of credit card market, the Notice provides that, inter alia, (i) the daily interest rate of overdraft shall not be higher than 0.05% and shall not be less than 0.035%; (ii) late payment penalty and fee for overdraft exceeding credit limit shall be lifted; and (iii) cash withdrawal from ATM machine shall not exceed RMB10,000 per day. Commercial Banks are allowed to determine the settlement and interest of overdraft and overpayment. The standard interest rate for overdraft of credit cards are canceled. Commercial banks are allowed to determine the rate subject to a minimum and maximum. The maximum interest free period for credit card purchases and minimum payment and other requirement were also lifted and are allowed to be determined by commercial banks on commercial basis and the requirement of card holders. The requirement of late payment penalty is also lifted and the default penalty shall be agreed by the commercial banks and their respective card holders. Over credit limit charge is prohibited and commercial banks are prevented to charge interest on service fees. On December 31, 2020, the PBoC issued the Notice on Liberation of Interest Rates on Credit Card Overdraft ( 《中國人民銀行關於推進信用卡透支利率市場化改革的通知》) by the People's Bank of China. To further promote the liberation of interest rates, the PBoC decided to allow the card issuers and cardholders to determine the interest rates on credit card overdraft with effect from January 1, 2021. The maximum and minimum interest rate restrictions, i.e. a maximum of 0.05% of the daily rate and a minimum of 0.7 time of 0.05% of the daily rate, were lifted.

**Derivatives**

On February 4, 2004, CBRC issued the Interim Measures for Derivatives Trading Business by Financial Institutions (《金融機構衍生產品交易業務管理暫行辦法》), which sets out the market entry requirements and detailed regulations of risk management with regard to the derivatives business by financial institutions. Pursuant to the interim measures, commercial banks in the PRC shall obtain the relevant qualifications and prior approval from CBRC before they conduct derivatives business. In addition, certain additional regulations were issued to further enhance risk management of derivatives business conducted by commercial banks in the PRC. The Interim Measures for Derivatives Trading Business by Financial Institutions were amended on July 3, 2007 and January 5, 2011.

On January 5, 2011, CBRC issued the Interim Measures for Derivatives Trading Business by Banking Financial Institutions (《銀行業金融機構衍生產品交易業務管理暫行辦法》) to regulate derivatives business of banking financial institutions and effectively control the risks arising therefrom. These measures required the banking financial institutions to obtain approval from, and be subject to the monitoring and supervision of, CBRC in respect of their derivatives trading business.

On June 22, 2014, PBoC issued Regulations of Foreign Exchange Settlement, Sale and Remittance Business of Banks (《銀行辦理結售匯業務管理辦法》) to regulate the foreign exchange settlement, sale and remittance business of banks so as to maintain the order of foreign exchange market. The application for foreign exchange spot market settlement, sale and remittance as well as foreign exchange derivatives business shall be made by the main office except for branch of foreign banks. Application for foreign exchange spot market settlement, sale and remittance as well as foreign exchange derivatives business by policy banks and national commercial banks shall be approved by SAFE and the applications by other banks shall be approved by local office of SAFE and local foreign exchange regulatory authority. According to the Order, authority from a superior entity having the qualification requisite must be sought for the branch office of a bank to operate foreign exchange settlement, sale and remittance as well as foreign exchange derivatives business and such business shall be registered with the local office of SAFE. The suspension of operation of foreign exchange spot market settlement, sale and remittance as well as foreign exchange derivatives business shall be registered with SAFE within 30 days from the suspension.

On December 5, 2014, SAFE issued the Notice on the Relevant Administrative Policy for Adjusting the Entry of Financial Institutions into the Interbank Foreign Exchange Market (《國家外匯管理局關於調整金融機構進入銀行間外匯市場有關管理政策的通知》) to adjust the entry of domestic financial institutions into the interbank foreign exchange market. The Notice requires that domestic financial institutions may become members of the interbank foreign exchange market and carry out RMB spot foreign exchange and derivative trading after they have obtained the qualification of spot sales and settlement in foreign exchange business with approval from SAFE and the qualification of derivative trading business with approval from the relevant financial regulatory authority, subject to the satisfaction of technical standard requirements of the relevant business in the interbank foreign exchange market.

On December 25, 2014, SAFE issued the Rules of Foreign Exchange Settlement, Sale and Remittance Business of Banks (《銀行辦理結售匯業務管理辦法實施細則》) to facilitate the operation of foreign exchange settlement, sale and remittance business. The rules specify that a bank shall satisfy certain conditions before it can submit an application for the operation of foreign exchange derivatives business and the documents required for consideration of application. The foreign exchange derivatives business shall also be managed in accordance with the rules.

**Financial Innovations**

On December 5, 2006, CBRC issued the Guidelines on Financial Innovations of Commercial Banks (《商業銀行金融創新指引》) to encourage PRC commercial banks to prudently engage in financial innovation-related activities, including developing new businesses and products and improving existing businesses and products, expanding their scope of business, enhancing cost efficiency and profitability, and reducing their reliance on loan business for profits. CBRC has indicated that it will streamline approval procedures and improve the approval efficiency for new products in order to encourage the financial innovation of PRC commercial banks.

**Financing to SMEs and Sannong-related Loans**

On April 19, 2012, the State Council issued the Opinions on Further Supporting the Healthy Development of SMEs (《國務院關於進一步支持小型微型企業健康發展的意見》), clarifying its further support to the healthy development of SMEs. On August 2, 2012, the General Office of the State Council issued the Plan for Work Division among Major Departments for Further Supporting the Healthy Development of SMEs (《進一步支持小型微型企業健康發展重點工作部門分工方案》), dividing the work among CBRC, PBoC, MOF and other departments for relieving the financing difficulties faced by SMEs.

On August 8, 2013, the General Office of the State Council issued the Implementation Opinions on Financial Supports to the Development of SMEs (《關於金融支持小微企業發展的實施意見》), giving certain advices on further enhancing financial services to SMEs and the support to their development.

On August 29, 2013, CBRC issued the Guidance Opinions on Further Improving Financial Services to SMEs (《關於進一步做好小微企業金融服務工作的指導意見》), which proposes certain requirements on further promoting Chinese banking industry financial service to SMEs, further improving the monitoring indicator system and assessments of financial service for SMEs.

On July 23, 2014, CBRC issued the Notice of Improving and Innovating Loan Services to SMEs and Improving Financial Service Level to SMEs (《關於完善和創新小微企業貸款服務提高小微企業金融服務水平的通知》), which proposes certain requirements on banking financial institutions to rationally resolve the loan term of SMEs, diversify loan products, innovate service model and strengthen risk management.

On December 9, 2014, the general office of the CBRC issued the Guidelines on the Supervision of the Sannong Financial Services of Rural Commercial Banks (《加強農村商業銀行三農金融服務機制建設監管指引》), pursuant to which rural commercial banks are required to continuously enhance, upgrade and improve their Sannong financial services. The CBRC and its local branches will direct and supervise the development of Sannong services and will investigate and assess the development and provision of Sannong services.

On June 22, 2015, CBRC issued the Notice on Further Implement Financial Service Supervising Policy of SMEs (《關於進一步落實小微企業金融服務監管政策的通知》), which proposes certain requirements on ensuring the implementation of policies, clarifying the emphasis of supports, increasing the input of credit and loan, advancing the innovation of loan services, improving tolerance indicator of non-performing assets, strengthening differentiated assessment, improving the service ability, and standardizing service charge for the purpose of implementing each supporting policy and continually improving and deepening financial service to SMEs.

On July 1, 2016, the General Office of the State Council issued the Notice on Further perfecting relevant work in relation to Private Investment (《國務院辦公廳關於進一步做好民間投資有關工作的通知》), which requires the CBRC to urge banking financial institutions to strictly comply with three requirements, namely the growth of credit loans granted to SMEs shall not be slower than the average growth of all loans, the number of SMEs, to which loans have been granted, shall not be less than that of the corresponding period of last year, the rate of SMEs getting loans successfully shall not be less than that of the corresponding period of last year.

On February 11, 2018, the General Office of CBRC issued the Notice of Promotion of SMEs Financing (Yin Jian Ban Fa [2018] No. 29) (《關於2018年推動銀行業小微企業金融服務高質量發展的通知》). Banking financial institutions are advised to focus the inclusive financial support to important economic sectors, in particular the SMEs in need of financial support. Since 2018, a *Two Growths and Two Controls* (兩增兩控) policy has been adopted. With reference to the statistics of inclusive finance in important economic sectors, the growth in loans to SMEs (including loans to SME, personal commercial loan and loans to owner of SME) of not more than RMB10 million each shall be higher than that of all other kinds of loans and the number of customers having outstanding loan shall be more than that of the previous corresponding period. The asset quality in relation to SME loan and the total cost of loan (including interest and bank service fee) shall be reasonably controlled.

On March 1, 2019, the General Office of CBIRC issued the Circular on Economic Development and Poverty Alleviation in Rural Areas by Banking and Insurance Institutions in 2019 (《關於做好2019年銀行業保險業服務鄉村振興和助力脫貧攻堅工作的通知》), according to which financial institutions are required to further increase the loans to the agricultural sector. The outstanding balance of loans to agricultural section shall continue to grow when compared on the same basis. It is one of the objectives of inclusive financing to have higher growth rate when compared with the average growth rate of loans to all sectors under inclusive financing.

On March 4, 2019, the General Office of CBIRC issued the Circular on Further Improvement of the Quality and Effectiveness of Financial Services for Micro and Small-sized Enterprises in 2019 (Yin Bao Jian Ban Fa [2019] No. 48) (《關於2019年進一步提升小微企業金融服務質效的通知》), under which, CBIRC strengthens its supervision on the increase in two measurements: annual growth in total amount of loans to SMEs of not more than RMB10 million each (referred to as "Inclusive SME Loans") shall not be lower than that of loans to all other sectors; and the number of accounts with outstanding loan at the end of the year shall not be less than that at the beginning of the year. In addition, CBIRC strengthens its supervision and guidance of the control in two areas to manage the quality and total cast of loans to SMEs. The objectives are Non-performing ratio of Inclusive SME Loans shall be maintained at no more than 3% over the total non-performing ratio of loans. The banks shall maintain the service fees of Inclusive SME Loans at the level of 2018 to reduce finance costs of SMEs.

During the Track Record Period and up to the date of this prospectus, we have complied with the foregoing regulations issued by the relevant government authority on financing to SMEs and Sannong-related loans.

### Internet Finance

On July 14, 2015, PBoC, CBRC, MIIT and other ministries jointly issued the Guidance Opinions on Promoting Healthy Development of Internet Finance (《關於促進互聯網金融健康發展的指導意見》) with an aim to promote financial reforms and innovations and healthy development of Internet finance by providing the following guidelines: (i) encouraging innovations and supporting the stable development of Internet finance; (ii) providing separate guidelines and specifying supervision responsibility regarding Internet finance; and (iii) optimizing the systems and regulating the order of Internet finance market.

On July 12, 2020, CBIRC issued the Interim Measures for the Administration of Internet Loans of Commercial Banks (《商業銀行互聯網貸款管理暫行辦法》) for the purposes of regulating the Internet loan business of commercial banks, which defined the connotation and scope of Internet loans. Internet loans of commercial banks shall follow the principles of small amount, short term, high efficiency and controllable risks. Commercial banks shall conduct unified management of its Internet loan business, include Internet loan business in the comprehensive risk management system, guarantee that the development of Internet loan business is commensurate with their own risk appetite and risk management capability, effectively assume the primary responsibility for the protection of borrowers' data, and embed the requirements for consumer protection into the system for the entire process management of Internet loan business.

On February 19, 2021, the General Office of CBIRC issued the Notice of the General Office of the CBIRC on Further Regulating the Internet Loan Business of Commercial Banks (《中國銀保監會辦公廳關於進一步規範商業銀行互聯網貸款業務的通知》) to strictly control cross-regional operations and clarify that if commercial banks and cooperative institutions jointly fund to issue internet loans, the proportion of capital contribution of the cooperative partner in a single loan shall not be less than 30%, the proportion of capital contribution issued with a single cooperative partner (including its related parties) shall not exceed 25% of the net tier-one capital, and the balances of the internet loans issued jointly with all cooperative institutions shall not exceed 50% of the total loan balances.

### Certificates of Deposit

Pursuant to the Trial Measures on Management of Certificates of Deposit (《大額存單管理暫行辦法》) promulgated by PBoC on June 2, 2015 and amended on June 3, 2016, the development of certificates of deposit business is regulated and the market pricing range of liability products issued by deposit-taking financial institutions is expanded to promote the liberalization of interest rates in an orderly manner. A self-regulated pricing system shall be developed by banks to determine the interest rates of certificates of deposit based on market conditions and the relevant rules. Upon approval by PBoC, self-regulatory mechanism for market interest rate promulgated the Implementation Provisions of Management of Certificates of Deposit (《大額存單管理實施細則》) on June 2, 2015.

## PRICING OF PRODUCTS AND SERVICES

### Interest Rates for Loans and Deposits

In accordance with the PRC Commercial Bank Law, commercial banks shall determine the interest rate for RMB-denominated deposits and loans within the range of benchmark interest rates set by PBoC. In recent years, PBoC has gradually liberalized its regulation of interest rates, allowing banks more flexibility to determine the interest rates for RMB-denominated loans and deposits.

With effect from October 29, 2004, commercial banks in the PRC were allowed to set their own interest rates of RMB-denominated deposits so long as such interest rates were not higher than the relevant PBoC benchmark rates. With effect from June 8, 2012, commercial banks in the PRC were allowed to set their own interest rates of RMB-denominated deposits up to 110% of the relevant PBoC benchmark rates. With effect from November 22, 2014, commercial banks in the PRC were allowed to set their own interest rates of RMB-denominated deposits up to 120% of the relevant PBoC benchmark rates. With effect from March 1, 2015, commercial banks in the PRC were allowed to set their own interest rates of RMB-denominated deposits up to 130% of the relevant PBoC benchmark rates. With effect from May 11, 2015, PBoC raised the cap of interest rates on RMB-denominated deposits to 150% of the relevant PBoC benchmark rates. However, such restrictions do not apply to interest rates on negotiated deposits, which are deposits by domestic insurance companies of RMB30 million or more or deposits by social security funds of RMB500 million or more, in each case with a term of more than five years, or deposits by Postal Savings Bank of China of RMB30 million or more with a term of more than three years, or pension insurance funds of RMB500 million or more with a term of more than five years. Effective on August 26, 2015, PBoC removed the cap on the interest rates on RMB-denominated time deposits with tenors of longer than one year while the cap on the interest rates on RMB-denominated demand deposits and time deposits with tenors up to one year remain unchanged. Effective on October 24, 2015, PBoC removed the cap on interest rates on deposits and allowed commercial banks in China to set interest rates on deposits based on commercial considerations.

On August 16, 2019, the PBoC issued the Notice of the People's Bank of China [2019] No.15, pursuant to which the National Interbank Funding Center is authorized by the PBoC to quote the LPR based on open market operation on the 20$^{th}$ day of each month, starting from August 20, 2019 or, if such day is a holiday, the next business day. Commercial banks shall determine their interest rates for new loans on the basis of the LPR which shall also be the base for their interest rate of floating rate loans.

**Pricing for Fee- and Commission-based Products and Services**

CBRC, PBoC and NDRC jointly issued the Notice on the Waiver of Certain Service Charges of Banking Financial Institutions (《關於銀行業金融機構免除部分服務收費的通知》) on March 9, 2011, which requires banking financial institutions to waive certain charging items in relation to RMB personal accounts starting from July 1, 2011.

On January 20, 2012, CBRC issued the Notice on Rectifying the Irregular Operations of Banking Financial Institutions (《關於整治銀行業金融機構不規範經營的通知》), which sets out certain prohibited operations in relation to charging items for banking financial institutions' credit business and enhances the pricing transparency.

Under the Administrative Measures on Pricing of Commercial Banking Services (《商業銀行服務價格管理辦法》) jointly issued by CBRC and NDRC on February 14, 2014 and effective on August 1, 2014, other than those services the pricing for which are guided or determined by the government, commercial banks' services are priced based on market conditions. In the event that the commercial bank increases the service prices or sets new service prices based on market conditions, the bank is required to make public such prices at least three months prior to the implementation of such prices in accordance with the Administrative Measures on Pricing of Commercial Banking Services.

According to the Notice on the Lifting and Suspension of Fee Charges for Some Basic Financial Services of Commercial Banks jointly issued by the NDRC and the CBRC on June 30, 2017, handling fee for counter cash withdraw at branches not in original province is lifted. Handling fee for the issue, remittance, lost and printing of bank draft shall be temporarily suspended by commercial banks.

## STATUTORY DEPOSIT RESERVE

Commercial banks are required to maintain a percentage of the daily average balance of their general deposits as reserves with PBoC to ensure they have sufficient liquidity to meet customer withdrawals. As of the Latest Practicable Date, our Bank is required to maintain a deposit reserve at 7.0% of the daily average balance of its general deposits every ten days according to the requirements of PBoC.

## SUPERVISION OVER CAPITAL ADEQUACY

### Latest CBIRC Supervisory Standards over Capital Adequacy

On February 23, 2004, CBRC issued the Capital Adequacy Measures of Commercial Banks (《商業銀行資本充足率管理辦法》) (the "Capital Adequacy Measures" (《資本充足率辦法》)), which became effective on March 1, 2004 and was amended on July 3, 2007 and was revoked by the Capital Administrative Measures of Commercial Banks (Provisional) (《商業銀行資本管理辦法（試行）》) (collectively referred to as "Capital Administrative Measures" (《資本管理辦法》)) on January 1, 2013.

On June 7, 2012, CBRC announced the Capital Administrative Measures, setting up a new capital adequacy regulatory system by reference to Basel III to replace the Capital Adequacy Measures. The Capital Administrative Measures have been in effect since January 1, 2013.

Under the Capital Administrative Measures, capital adequacy ratios are calculated according to the following formulae in accordance with the CBRC requirements:

(i) Capital adequacy ratio = (Total capital – Corresponding capital deductions)/ Risk-weighted assets x 100%

(ii) Tier-one capital adequacy ratio = (Tier-one capital – Corresponding capital deductions)/ Risk-weighted assets x 100%

(iii) Core tier-one capital adequacy ratio = (Core Tier-one capital – Corresponding capital deductions)/ Risk-weighted assets x 100%

According to the relevant requirements of Capital Administrative Measures, total capital of commercial banks includes core tier-one capital, other tier-one capital and tier-two capital. Risk-weighted assets of commercial banks include credit risk-weighted assets, market risk-weighted assets and operational risk-weighted assets.

### Regulatory Requirements in respect of Capital Adequacy Ratios

Regulatory requirements in respect of the capital adequacy ratios of commercial banks include the minimum capital requirement, capital reserve requirement, countercyclical capital requirement, additional capital requirement for systematically important banks and capital requirement under the second pillar.

The capital adequacy ratio of commercial banks at each tier must meet the following minimum requirements:

- capital adequacy ratio shall not be lower than 8%;
- tier-one capital adequacy ratio shall not be lower than 6%; and
- core tier-one capital adequacy ratio shall not be lower than 5%.

Commercial banks are required to calculate and set aside their capital reserve after meeting the minimum capital requirements. The capital reserve is required to be equal to 2.5% of risk-weighted assets and is to be fulfilled by core tier-one capital. Under certain circumstances, commercial banks are required to calculate and set aside capital for meeting countercyclical capital requirements in addition to meeting the minimum capital requirements and the capital reserve requirements. The countercyclical capital is required to be in the range of 0% to 2.5% of risk-weighted assets and to be fulfilled by core tier-one capital.

In addition, the systematically important banks in the PRC are required to calculate and set aside additional capital in an amount equal to 1% of their risk-weighted assets, which is to be fulfilled by core tier-one capital. If a PRC bank is recognized as a global systematically important bank, the additional capital requirement applicable to it cannot be less strict than those requirements generally provided for by the Basel Committee on Banking Supervision.

Furthermore, CBRC has the right to impose more prudent capital requirements under the second pillar framework in order to ensure adequate risk coverage, including:

- specific capital requirements in respect of certain asset portfolios on the basis of risk assessment; and
- specific capital requirements on an individual bank according to the results of supervisory inspections.

**Time Limit for Meeting the Requirements**

The Capital Administrative Measures provided that commercial banks are required to meet the regulatory requirements on capital adequacy ratios as set forth in those measures before the end of 2018, and where circumstances permit, commercial banks are encouraged to meet the requirements ahead of schedule.

To ensure the smooth implementation of the Capital Administrative Measures, on November 30, 2012 CBRC issued the Notice Regarding the Arrangement of Transition Period of Implementation of the Administrative Measures for the Capital of Commercial Banks (Trial) (《關於實施〈商業銀行資本管理辦法（試行）〉過渡期安排相關事項的通知》). This notice provides that commercial banks must meet the minimum capital requirements and also provides that the systematically important banks in the PRC are required to meet the additional capital requirements before January 1, 2013. During the transitional period, the capital reservation buffer requirement (2.5%) will be gradually introduced and commercial banks are required to meet the annual capital adequacy ratio requirement as follows:

| Type of Bank | | As of December 31, | | | | | |
|---|---|---|---|---|---|---|---|
| | | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
| Systematically Important Banks | Core tier-one capital adequacy ratio | 6.5% | 6.9% | 7.3% | 7.7% | 8.1% | 8.5% |
| | Tier-one capital adequacy ratio | 7.5% | 7.9% | 8.3% | 8.7% | 9.1% | 9.5% |
| | Capital adequacy ratio | 9.5% | 9.9% | 10.3% | 10.7% | 11.1% | 11.5% |
| Other Banks | Core tier-one capital adequacy ratio | 5.5% | 5.9% | 6.3% | 6.7% | 7.1% | 7.5% |
| | Tier-one capital adequacy ratio | 6.5% | 6.9% | 7.3% | 7.7% | 8.1% | 8.5% |
| | Capital adequacy ratio | 8.5% | 8.9% | 9.3% | 9.7% | 10.1% | 10.5% |

Note: We are categorized as "other banks" shown in the table above.

In addition, if the regulatory authorities require commercial banks to set up countercyclical capital requirements or impose capital requirements on an individual bank under the second pillar, the regulatory authorities will prescribe a time limit for meeting the requirements. Commercial banks subject to such additional requirements are required to meet the relevant deadlines.

**Issuance of Capital Instruments to Replenish Capital**

With effect from June 17, 2004, pursuant to the Measures for Administration on Issuance of Subordinated Bonds of Commercial Banks (《商業銀行次級債券發行管理辦法》) jointly issued by PBoC and CBRC, PRC commercial banks are permitted to issue bonds which are subordinated to the banks' other liabilities but are senior to the banks' equity capital. Upon approval by CBRC, PRC commercial banks may include such subordinated bonds in their supplementary capital. Subordinated bonds can be issued either in a public offering in the interbank bond market or in a private placement. PRC commercial banks may not hold an aggregate amount of subordinated bonds issued by other banks in excess of 20% of their core capital. The issuance of subordinated bonds by PRC commercial banks is subject to the approval of CBRC and PBoC. CBRC regulates the qualification for bonds issuance and the method for the inclusion in the supplementary capital, while PBoC regulates the issuance and trading of subordinated bonds in the interbank bond market.

On June 7, 2012, CBRC issued the Capital Administrative Measures which redefined the capital structure of a commercial bank from core capital and supplementary capital under the Capital Adequacy Measures with core tier-one capital, other tier-one capital and tier-two capital. In addition, the Capital Administrative Measures provided the concept and criteria for inclusion of tier-two capital instruments, which differs from that of subordinated debt, subordinated bonds and hybrid capital bonds. Pursuant to the Capital Administrative Measures, unqualified tier-two capital instruments issued by a commercial bank before September 12, 2010 may be included in regulatory capital before January 1, 2013, but, from January 1, 2013, such instruments are to be decreased by 10% each year and, from January 1, 2022, such instruments are no longer allowed to be included in regulatory capital. For a tier-two capital instrument issued by a commercial bank between September 12, 2010 and January 1, 2013, if the instrument has no write-down or share conversion clause but meets the other criteria for inclusion of the relevant capital instruments, it may be included in regulatory capital before January 1, 2013, but, from January 1, 2013, such instruments are to be decreased by 10% each year and, from January 1, 2022, such instruments are no longer allowed to be included in regulatory capital.

On October 30, 2013, CSRC and CBRC jointly promulgated the Guidance Opinions on the Issuance of Corporate Bonds by Commercial Banks for Capital Replenishment (《關於商業銀行發行公司債券補充資本的指導意見》), which became effective on November 6, 2013. According to the guidance opinions, commercial banks, whose shares are listed or are contemplated for listing, that wishes to issue corporate bonds with write-down clauses to supplement capital shall design the relevant terms of the corporate bonds appropriately, formulate a feasible issuance plan, which shall be submitted to CBRC for the confirmation of the nature of capital according to the relevant regulations. CBRC shall then issue a regulatory opinion on such issuance plan.

On November 30, 2013, the State Council promulgated the Guidance Opinions on the Pilot Scheme of Preference Shares (《國務院關於開展優先股試點的指導意見》), which sets out the principles regarding the definition of preference shares, the priority of holders of preference shares in receiving profits distribution and remaining assets, the repurchase and conversion of preference shares, the restrictions on voting rights and recovery of voting rights, and the issuance and trading of preference shares. On March 21, 2014, CSRC promulgated the Administrative Measures on the Pilot Scheme of Preference Shares (《優先股試點管理辦法》) which sets out specific requirements in respect of the exercise of the rights of holders of preference shares, the issuance of preference shares by listed companies, the non-public placement of preference shares by non-listed public companies, the trading, transfer, registration and settlement of transactions, the information disclosure, the repurchase, merger and acquisition and reorganization, and the regulatory measures and legal liabilities.

On July 19, 2019, CBIRC and CSRC issued the Guidance Opinions on the Issuance of Preference Shares by Commercial Banks for Tier-one Capital Replenishment (Revision) (《關於商業銀行發行優先股補充一級資本的指導意見（修訂）》), which allows commercial banks to issue preference shares to replenish tier-one capital. The issuance of preference shares by commercial banks shall comply with the requirements of the State Council and CSRC and fulfill the conditions regarding the issue of capital replenishment instruments of CBIRC. In addition, the core tier-one capital adequacy ratio shall meet the prudent regulatory requirements of CBIRC. The issuance of preference shares by commercial banks shall comply with the Administrative Measures for the Capital of Commercial Banks (Trial) (《商業銀行資本管理辦法（試行）》) and meet the standard requirements regarding other tier-one capital instruments of the Guidance Opinions on Capital Instrument Innovation of Commercial Banks. Commercial banks shall apply to CBIRC for the issuance and apply to CSRC after obtaining the approval of CBIRC. CSRC will review the application according to the Administrative Measures on the Pilot Scheme of Preference Shares (《優先股試點管理辦法》) and other regulations. The issue of the preference shares by non-listed commercial banks shall be subject to the supervision on non-listed public companies as required by CSRC.

On November 22, 2019, the CBIRC issued the Notice of the CBIRC on the Issue of Guidance Opinions on Capital Instrument Innovation of Commercial Banks (Revision) (《中國銀保監會關於印發<關於商業銀行資本工具創新的指導意見（修訂）>的通知》), pursuant to which other tier-one and tier-two capital instruments issued by commercial banks shall comply with the relevant requirements of the Capital Administrative Measures and shall fulfill the relevant standards as stipulated under the Guidance Opinions by means of contracts. In addition, commercial banks shall submit capital instrument issuance proposals to the CBIRC or its local offices. The CBIRC or its local offices shall verify the capital nature of the capital instruments to be issued in accordance with their supervision responsibilities and carry out approval procedures according to applicable laws and regulations.

On January 28, 2019, the MOF issued Provisions on the Recognition of Perpetual Bonds (《永續債相關會計處理的規定》), according to which perpetual bonds shall be classified into equity instruments or financial liabilities in accordance with the Accounting Standard No.37 with reference to the following factors: maturity; order of settlement; interest rates hike and indirect obligations.

**CBIRC's Supervision of Capital Adequacy**

CBIRC is responsible for supervising the capital adequacy of banking financial institutions in the PRC. It reviews and evaluates banking financial institutions' capital adequacy through both on-site examination and off-site surveillance. Commercial banks are required to report to CBRC their unconsolidated capital adequacy ratios and their consolidated capital adequacy ratios on a quarterly basis.

Under the Capital Administrative Measures, commercial banks are classified into four categories based on their capital adequacy ratios, and CBIRC may take corresponding measures to these banks, the details of which are as follows:

| Categories | Capital adequacy | Measures of CBIRC |
|---|---|---|
| Type I | Capital adequacy ratio, tier-one capital adequacy ratio and core tier-one capital adequacy ratio all meet the capital requirements at all levels. | • to require the commercial bank to improve the analysis and forecast of the reasons for the decrease of its capital adequacy ratios;<br>• to require the commercial bank to formulate a practicable capital adequacy ratio management plan; and<br>• to require the commercial bank to improve its risk control capability. |
| Type II | Capital adequacy ratio, tier-one capital adequacy ratio and core tier-one capital adequacy ratio do not meet capital requirements of the second pillar, but not less than capital requirements at other levels. | • adopting the regulatory measures for Type I banks;<br>• to hold talks on prudent practice with the board of directors and the senior management of the commercial bank;<br>• to issue a regulatory opinion, which must include the problems identified with the capital management of the commercial bank, the proposed measures for rectification and the opinion on meeting the requirements within the prescribed time limit;<br>• to require the commercial bank to formulate a practicable capital replenishment plan and the |

| Categories | Capital adequacy | Measures of CBIRC |
|---|---|---|
| | | plan for meeting the requirements within the prescribed time limit;<br>• to increase the frequency of supervision and inspection of the capital adequacy of the commercial bank; and<br>• to require the commercial bank to take risk mitigation measures for specific risk areas. |
| Type III | Capital adequacy ratio, tier-one capital adequacy ratio and core tier-one capital adequacy ratio all meet the minimum capital requirement, but do not meet capital requirements at other levels. | • to adopt the regulatory measures for Type I and II banks;<br>• to restrict the commercial bank from distributing dividends and other incomes;<br>• to restrict the commercial bank from granting any form of incentives to directors and senior management;<br>• to restrict the commercial bank from making equity investments or repurchasing capital instruments;<br>• to restrict the commercial bank from incurring major capital expenditure; and<br>• to require the commercial bank to control the growth of risky assets. |
| Type IV | Any of capital adequacy ratio, tier-one capital adequacy ratio and core tier-one capital adequacy ratio fails to reach the minimum capital requirement. | • to adopt the regulatory measures for Type I, II and III banks;<br>• to require the commercial bank to significantly downsize risky assets;<br>• to order the commercial bank to suspend all high-risk asset businesses;<br>• to restrict or prohibit the commercial bank from establishing new institutions or launching new businesses;<br>• to compulsorily require the commercial bank to write down tier-two capital instruments or convert them into ordinary shares;<br>• to order the commercial bank to change its directors or senior management or restrict their rights;<br>• to lawfully take over the commercial bank or procure the institutional reorganization of, or even dissolve, the commercial bank; and<br>• to consider other external factors and take other necessary measures in order to solve the problems faced by Type IV commercial banks. |

Note: As of March 31, 2021, we were a Type I bank as shown in the table above.

**Leverage Ratio Management**

In an effort to give guidance to commercial banks on enhancing leverage ratio management and effectively controlling the degree of leverage, on January 30, 2015, CBRC issued the Administrative Measures on the Leverage Ratio of Commercial Banks (revised 2015) (商業銀行槓桿率管理辦法（2015年修訂）), which came into effect on April 1, 2015.

Pursuant to these measures, commercial banks are required to maintain a leverage ratio not lower than 4%, notwithstanding the consolidation of statements. The formula for calculating the leverage ratio is as follows:

$$\text{Leverage ratio} = \frac{\text{Tier - one capital - tier - one capital deductions}}{\text{Balance of adjusted on - balance sheet and off - balance sheet assets}} \times 100\%$$

Commercial banks are required to regularly report their gearing ratio statements pursuant to the requirements of CBRC and its local offices. In accordance with the Administrative Measures on the Leverage Ratio of Commercial banks (2015 revised), Consolidated gearing ratio statements shall be reported on a semi-annual basis and unconsolidated gearing ratio statements shall be reported on a quarterly basis. Our Bank submits consolidated gearing ratio statement and unconsolidated gearing ratio statement on a quarterly basis.

For a commercial bank whose gearing ratio is lower than the minimum regulatory requirement, CBRC and its local offices may take the following rectification measures requiring the commercial bank to: (i) supplement its tier-one capital within a specified period; (ii) control the growth of its on and off-balance sheet assets; and (iii) reduce the size of its on- and off-balance sheet assets. If the commercial bank fails to rectify its non-compliance within the specified period, or its behavior has seriously endangered its sound operation or damaged the legitimate interests of depositors or other clients, CBRC and its local offices may identify the situation and take the following measures pursuant to the People's Republic of China Banking Supervision and Regulatory Law: (i) demanding suspension of certain business activities and approval of new businesses; (ii) limit dividend distribution and other income; (iii) suspending approval of opening new branches; (iv) demanding transfer of equity interest held by controlling shareholders or limit exercise of their shareholders' rights; (v) demanding change of directors and senior management or limit their rights; and (vi) other measures stipulated by the law. In addition to the above-mentioned measures, CBRC may also impose an administrative penalty upon such commercial bank.

In accordance with the Administrative Measures on the Leverage Ratio of Commercial banks, systematically important banks are required to meet the minimum requirements on leverage ratio before April 1, 2015, when the measures became effective, while non-systematically important banks are required to meet such requirements on leverage ratio before the end of 2016. We are a non-systematically important bank, and we have already met the regulatory requirement on leverage ratio of not lower than 4%.

**Basel Accords**

Basel I was introduced by the Basel Committee on Banking Supervision, or the Basel Committee, in 1988. Basel I is a capital measurement system for banks that provides for the implementation of a credit risk measurement framework with a minimum capital standard of 8%.

Since 1998, the Basel Committee has issued certain proposals for Basel II, to replace Basel I. Basel II retained the key elements of Basel I, including the general requirement for banks to hold total capital equivalent to at least 8% of their risk-weighted assets, but sought to improve the capital framework in various key respects, including: (i) establishment of the "three pillars" framework, namely the "minimum capital standard", "supervision and regulation by regulatory authorities" and "information disclosure"; and (ii) introducing material changes to the calculation of capital adequacy. In response to the deficiencies in financial regulation revealed by the 2008 financial crisis, the Basel Committee on Banking Supervision started to advance the global financial regulatory reform in an effort to further strengthen the regulation, supervision and risk management of the banking industry. In such circumstances, Basel III was drafted and then endorsed by G20 Leaders at Seoul summit November 2010. On December 16, 2010, Basel III was officially issued by the Basel Committee on Banking Supervision. Basel III enhances micro-prudential regulation and supervision and adds a macro-prudential overlay. These two approaches to supervision are complementary as greater resilience at the individual bank level reduces the risk of system-wide shocks. Basel III: (i) strengthens capital adequacy in capital resources, risk-weighted assets and capital ratios by requiring banks to hold more higher-quality capital against more conservatively calculated risk-weighted assets; (ii) introduces a new leverage ratio as a backstop to the risk-based requirement, which is aimed at promoting the build-up of capital that can be drawn down in periods of stress; and (iii) introduces two new global liquidity standards, which aim to ensure that adequate funding is maintained in case of crisis.

CBRC promulgated and amended the Capital Adequacy Measures on February 23, 2004 and July 3, 2007, respectively. CBRC has advised that the Capital Adequacy Measures is based on Basel I, while also taking into consideration certain aspects of Basel II. In March 2009, China officially joined the Basel Committee and participated in the establishment of international standards for banking supervision, which is conducive to the upgrading of supervision techniques and supervision levels in China's banking industry.

In line with the reform of Basel Accords and the implementation of Basel III, on April 27, 2011, CBRC promulgated the Guidance Opinions on the Implementation of New Regulatory Standards In China's Banking Industry (《關於中國銀行業實施新監管標準的指導意見》), which set out the key targets and principles for the reform of China's capital regulatory framework. On June 1, 2011, CBRC issued the Administrative Measures on the Leverage Ratio of Commercial Banks. On June 7, 2012, CBRC issued the Capital Administrative Measures. The Capital Administrative Measures came into effect on January 1, 2013 and superseded the Capital Adequacy Measures and the various guidelines mentioned above. As an effort to enhance the effectiveness of capital supervision, to improve the risk management capability of commercial banks and to strengthen the constraint function of the market, CBRC issued the following four policy documents on July 19, 2013 to complement the Capital Administrative Measures: the Measurement Rules for Risk Exposure Capital of Central Counterparties (《中央交易對手風險暴露資本計量規則》), the Supervisory Requirements Concerning Information Disclosure on the Capital Composition of Commercial Banks (《關於商業銀行資本構成信息披露的監管要求》), the Supplemental Supervisory Requirements Concerning the Implementation of Internal Ratings-based Approach by Commercial Banks (《關於商業銀行實施內部評級法的補充監管要求》), and the Questions and Answers Regarding the Capital Supervisory Policy (《資本監管政策問答》). On September 2, 2015, CBRC revised the Administrative Measures on the Liquidity Risk of Commercial Banks (Trial) (《商業銀行流動性風險管理辦法(試行)》). The Administrative Measures on the Liquidity Risk of Commercial Banks (《商業銀行流動性風險管理辦法》), which was issued on May 23, 2018 by CBIRC, became effective on July 1, 2018 and replaced the Administrative Measures on the Liquidity Risk of Commercial Banks (Trial) (《商業銀行流動性風險管理辦法(試行)》).

In January 2014, the Basel Committee issued the Leverage Ratio Framework and Disclosure Requirements in the Third Installment of Basel Accords (《第三版巴塞爾協議槓桿率框架和披露要求》), which revised the international rules in relation to leverage ratio. According to the new rules of leverage ratio by the Basel Committee, in 2015, CBRC revised the Administrative Measures on the Leverage Ratio of Commercial Banks which was issued on June 1, 2011, and put forward clearer and stricter requirements for the disclosure of leverage ratio of commercial banks.

## LOAN CLASSIFICATION, ALLOWANCES AND WRITE-OFFS

### Loan Classification

Commercial banks in the PRC are currently required to classify loans under a five-category loan classification system to estimate the likelihood of full repayment of principal and interest by debtors on time, in accordance with the Guidelines of Risk-based Classification of Loans (《貸款風險分類指引》) promulgated by CBRC on July 3, 2007. The five categories are "normal," "special mention," "substandard," "doubtful" and "loss." A loan classified as substandard, doubtful or loss is considered to be non-performing. The primary factors for evaluating the capacity of repayment include the borrower's cash flow, financial condition and non-financial factors may influence the capacity.

### Allowance for Loan Impairment

According to the Guidelines of Risk-based Classification of Loans, a loan classified as substandard, doubtful or loss is considered to be non-performing, and commercial banks are required to make allowance based on a reasonable estimate of the probable loss on a prudent and timely basis.

Under the Guidelines on Allowance for Bank Loan Impairment (《銀行貸款損失準備計提指引》) issued by PBoC on April 2, 2002, commercial banks are required to make a general allowance for loan impairment on a quarterly basis and to have a general allowance of not less than 1% of the total loans outstanding as of the end of the year. The guidelines provide additional requirements on the proportion of specific allowance for each loan category: 2% for special mention loans; 25% for substandard loans; 50% for doubtful loans and 100% for impaired loans. Allowance for losses of substandard and doubtful loans may be set aside within a floating range of 20%. Commercial banks may make special allowance in accordance with special risk factors (including risks in association with certain industries and countries), probability of losses and historical experience.

In accordance with the Administrative Measures for Allowance for Loan Impairment of Commercial Banks (《商業銀行貸款損失準備管理辦法》) which was promulgated on July 27, 2011 by CBRC and became effective on January 1, 2012, the allowance adequacy ratio of loan impairment of commercial banks is assessed based on its allowance to gross loan ratio and allowance coverage ratio, the benchmarks of which are 2.5% and 150%, respectively. The higher of the two ratios will be taken to be the supervisory standard. The boards of directors of commercial banks are required to assume ultimate responsibility for the management of loan loss allowance. Systematically important banks are required to reach the standard before the end of 2013, and non-systematically important banks are required to reach such standard before the end of 2016. Those failing to reach the standard before the end of 2016 are required to formulate a plan on how to reach such standard and submit the same to CBRC and reach such standard by the end of 2018 at the latest.

In accordance with the Administrative Measures for Allowance for Loan Impairment of Commercial Banks (《金融企業準備金計提管理辦法》) promulgated on March 30, 2012 by MOF and became effective on

July 1, 2012, financial credit assets shall be classified on the basis of risk exposures in accordance with the relevant regulatory regulations. The standard ratio of impairment allowance are initially fixed at 1.5% for normal loan; 3% for special mention loans; 30% for substandard loans; 60% for doubtful loans; and 100% for impaired loans. Other risk assets shall be classified on similar basis and their respective ratio of impairment allowance shall not be lower than that of the loans.

**CBIRC's Supervision of Loan Classification and Loan Loss Allowance**

Commercial banks are required to formulate detailed internal procedures that clearly define the responsibilities of each relevant department with respect to loan classification, approval, review and related matters. In addition, commercial banks are required to report to CBIRC information regarding loan classification and loan loss allowance on a regular basis via quarterly report and annual report. Based on the review of these reports, CBIRC may require commercial banks to explain significant changes in loan classification and loan loss allowance levels, or to carry out further inspections. According to the Administrative Measures for Allowance for Loan Impairment of Commercial Banks (《商業銀行貸款損失準備管理辦法》), CBIRC may issue risk alerts to a commercial bank and require rectifications to be made accordingly if the commercial bank fails to meet the relevant minimum loan loss allowance standards for consecutive three months. CBIRC may take further regulatory actions if the non-compliance lasts for consecutive six months.

**Loan Write-offs**

Under the regulations issued by CBIRC, PBoC and MOF, commercial banks are required to establish a strict audit and approval process to write off loans. In order to be written off, a loan needs to meet the standards set by MOF. According to the Administrative Measures for Write-off of Doubtful Debts of Financial Enterprises (2017 Edition) (《金融企業呆賬核銷管理辦法(2017年版)》) issued by MOF on August 31, 2017, financial enterprises shall only write off loans that meet the approval standards as required by MOF after carrying out necessary measures and procedures and internal approval procedures of the financial enterprises.

**Bulk Transfer of Non-performing Assets**

Pursuant to the Administrative Measures for Bulk Transfer of Non-performing Assets of Financial Enterprises (《金融企業不良資產批量轉讓管理辦法》) issued by MOF and CBRC on January 18, 2012, financial enterprises may carry out bulk transfer of non-performing credit assets and non-credit assets generated from their business operations, including loans in the substandard, doubtful and loss categories recognized according to statutory processes and standards; written-off book assets; assets for the offsetting of debt and other non-performing assets.

**Allowance and Statutory General Reserve for Impairment Losses**

On March 30, 2012, MOF issued the Administrative Measures for the Provisioning for Reserves of Financial Institutions (《金融企業準備金計提管理辦法》). The measures became effective on July 1, 2012 and require that, in principle, the general statutory reserve shall be no less than 1.5% of the risk-bearing assets reserve at the balance sheet date. Financial Institutions may choose between an internal model approach and a standardized approach to determine the estimated value of potential risks for the provision of statutory general reserve. Financial institutions that have adopted the standardized approach to calculate the statutory general reserve should temporarily use the following standard risk weightings for credit assets: 1.5% for normal loans, 3% for special mention loans, 30% for substandard loans, 60% for doubtful loans and 100% for loss loans. If the level of general reserve of a financial institution fails to reach 1.5% of the aggregate amount of risk-bearing assets at the balance sheet date, the financial institution is allowed to increase its statutory reserve to meet requirements within a certain period of time not exceeding five years in principle.

**OTHER OPERATIONAL AND RISK MANAGEMENT RATIOS**

The Rules Governing Capital Management of Commercial Banks (Provisional) (《商業銀行資本管理辦法（試行）》) and Core Indicators (Trial) (《核心指標（試行）》) issued by CBRC.

The table below sets out ratios of our Bank and its subsidiaries (on a consolidated basis) as of December 31, 2018, 2019 and 2020 and March 31, 2021, calculated in accordance with the required ratios as provided in the Core Indicators (Trial) and other relevant regulatory requirements and applicable accounting standards:

| Indicator categories | Primary indicators | Secondary indicators | Requirements | As of December 31, 2018 | 2019 | 2020 | As of March 31, 2021 |
|---|---|---|---|---|---|---|---|
| | | | *(%)* | *(%)* | *(%)* | *(%)* | *(%)* |
| **Risk level** | | | | | | | |
| Liquidity risk | Liquidity ratio | Domestic and foreign currencies | ≥25 | 90.30 | 89.53 | 71.62 | 74.74 |
| | Core liability ratio | | ≥60 | 62.11 | 66.79 | 63.94 | 65.48 |
| | Liquidity gap ratio | | ≥-10 | 8.57 | 22.65 | 14.97 | 13.49 |
| Credit risk | Non-performing asset ratio | | ≤4 | 0.60 | 0.84 | 0.64 | 0.62 |
| | | Non-performing loan ratio | ≤5 | 1.27 | 1.00 | 0.82 | 0.79 |
| | Credit concentration to a single group customer | | ≤15 | 6.83 | 6.71 | 12.63 | 11.82 |
| | | Credit concentration to a single customer | ≤10 | 2.14 | 1.89 | 6.65 | 6.19 |
| | Overall credit exposure to connected parties | | ≤50 | 28.89 | 33.94 | 42.23 | 40.55 |
| **Risk cushion** | | | | | | | |
| Profitability | Cost-to-income ratio | | ≤45 | 29.98 | 28.84 | 31.51 | 27.60 |
| | Return on assets | | ≥0.6 | 1.14 | 1.12 | 1.00 | 1.26 |
| | Return on equity | | ≥11 | 16.42 | 14.92 | 13.64 | 16.71 |

| Indicator categories | Primary indicators | Secondary indicators | Requirements | As of December 31, 2018 | 2019 | 2020 | As of March 31, 2021 |
|---|---|---|---|---|---|---|---|
| | | | (%) | (%) | (%) | (%) | (%) |
| Allowance adequacy | Allowance adequacy ratio for asset impairment | | >100 | 288.38 | 301.71 | 522.66 | 452.00 |
| | | Allowance adequacy ratio for loan impairment | ≥100 | 340.11 | 409.76 | 497.93 | 588.90 |
| Capital adequacy | Capital adequacy ratio | | ≥10.5 | 14.84 | 15.30 | 14.00 | 13.93 |
| | | Tier-one capital adequacy ratio | ≥8.5 | 12.09 | 12.65 | 11.57 | 11.56 |
| | | Core tier-one capital adequacy ratio | ≥7.5 | 12.08 | 12.63 | 11.54 | 11.52 |

In addition, the Core Indicators (Trial) sets out guidance on other ratios, including ratios relating to interest rate sensitivity, operational risk and loan migration. CBIRC may formulate regulatory requirements on these ratios in the future.

## DEPOSIT INSURANCE SCHEME

In accordance with the Deposit Insurance Regulation (《存款保險條例》) issued by the State Council on February 17, 2015 and became effective on May 1, 2015, all financial institutions in the PRC which accept deposits (apart from the branches of foreign banks) shall be governed by the new deposit insurance system. Upon the failure of a deposit-taking financial institution, each depositor of such failed deposit-taking financial institution shall be entitled to a maximum protection of RMB500,000 on the deposits with such failed financial institution. Deposit-taking financial institutions shall pay insurance premiums consisting of unit premium and risk premium. Insurance premiums are calculated on the basis of the deposits insured and the rate determined by the regulatory authority of deposit insurance. The premium is payable every six months. The deposit insurance premiums shall be deposited with PBoC or shall be used to invest in debt securities issued by the PRC central and local government, PBoC bills and senior bonds etc.

## CORPORATE GOVERNANCE AND INTERNAL CONTROL

### Corporate Governance

The PRC Company Law, the PRC Commercial Bank Law and other laws, regulations and regulatory documents provided specific requirements for corporate governance. The Corporate Governance Standards require commercial banks to establish a sound corporate governance system and a clear organizational structure, with duty boundaries and performance requirements being clearly split among the board, the supervisory board and the senior management. The standards also require commercial banks to abide by the principles of independent duties, independent responsibilities, coordinated running, and effective checks and balances, and improve risk management, checks and balances and supervision, and incentive and restraint mechanisms.

The PRC Company Law and Guidelines on the Functioning of Supervisory Board of Commercial Banks (《商業銀行監事會工作指引》) require the proportion of employees representative supervisors and that of external supervisors to be not less than one-third of the supervisory board. The Measures for Evaluating the Performance of Directors of Banking and Insurance Institutions (Trial) (《銀行保險機構董事履職評價辦法（試行）》) require commercial banks to evaluate the performance of their directors in accordance with applicable laws, regulations and rules.

**Internal Controls**

On May 22, 2008, the Basic Rules on Enterprise Internal Control (《企業內部控制基本規範》) were issued jointly by MOF, CBRC, NAO, CSRC and CIRC with effect from July 1, 2009. The rules require enterprises to establish and implement internal control systems, utilize information technology to strengthen internal control and establish information systems addressing their operational and management needs.

On April 16, 2016, CBRC issued the Guidelines on Internal Audit of Commercial Banks (《商業銀行內部審計指引》). Under such Guidelines, commercial banks are required to establish an audit committee of the board of directors with at least three members, a majority of whom must be independent directors and the audit committee shall be, in principle, chaired by an independent director. Commercial banks can have one chief auditor or chief audit officer. For banks without a chief auditor, the chairman of the internal audit department shall concurrently serve as the chief auditor. Each commercial bank shall also set up an independent internal audit department comprising sufficient numbers of internal auditors, the number of whom shall, in principle, be not less than 1% of the total number of employees of the bank.

On June 2, 2021, CBIRC issued the Corporate Governance Standards which require that commercial banks shall establish a sound internal control system to clarify internal control duties. The board of directors shall bear the ultimate responsibility for comprehensive risk management, continuously monitor the status of internal control, establish a good internal control culture, and regularly study and evaluate the soundness, rationality and effectiveness of the company's internal control. The board of supervisors shall supervise and examine internal control, and supervise the rectification. Commercial banks shall engage independent, professional and qualified external audit firms to regularly evaluate the company's internal control.

**Personal Data and Privacy Protection**

PRC data privacy laws restrict our collection, storage, use, processing, disclosure and transfer of non-public personal information of customers. The PBoC's Notice on the Further Protection of Personal Financial Information by Financial Institutions issued on March 27, 2012 (Yin Fa [2012] No. 80) (《中國人民銀行關於金融機構進一步做好客戶個人金融信息保護工作的通知》) requires that banking financial institutions strictly follow the relevant laws and regulations when collecting, maintaining and using personal financial information, or when providing the same to external parties. Meanwhile, banking institutions shall not sell personal financial information of customers to any entity or individual, or provide such information to any external party against the relevant laws and regulations. They must adopt effective measures to ensure the safety of customers' personal financial information and prevent the unauthorized disclosure and misuse of the same. The State Council General Office's Guiding Opinions on Strengthening the Protection of Financial Consumers' Rights and Interests (《國務院辦公廳關於加強金融消費者權益保護工作的指導意見》), effective since November 2015, explicitly states that financial institutions must respect and protect consumers' basic rights, including their right to information safety. Regulatory authorities including the CBIRC and PBoC have also placed a growing emphasis on the protection of personal data. In September 2020, for instance, the PBoC released its Implementation Measures for Protecting Financial Consumers' Rights and Interests (《中國人民銀行金融消費者權益保護實施辦法》), which clearly state that financial information of consumers shall be used for the purpose in compliance with laws and regulations and agreed by both parties and kept in strict confidential, and no leakage or illegal disclosure to other parties shall be allowed. Financial institutions are required to set up a management system for the usage of financial information of consumers and implement technologies and other measures as necessary to properly maintain and store the financial information of consumers collected.

**Information Disclosure Requirements**

Pursuant to the Measures for the Information Disclosure of Commercial Banks (《商業銀行信息披露辦法》) and the Corporate Governance Standards issued by CBRC on July 3, 2007 and June 2, 2021, respectively, a PRC commercial bank is required to issue an annual report within four months from the end of each financial year disclosing its financial position and operational results. The board of directors of the commercial banks shall be responsible for the disclosure of information. Disclosure documents include periodical reports, interim reports and other relevant information under regulatory requirements. The commercial banks shall disclose information via making available annual reports at the principal places of business or on the website or other methods to facilitate timely access to the disclosed information by the shareholders and other stakeholders. The listed commercial banks shall also disclose information in compliance with the relevant provisions promulgated by the securities regulatory authority.

**Related Party Transactions**

The Administrative Measures on Related Party Transactions with Insiders and Shareholders of Commercial Banks (《商業銀行與內部人和股東關聯交易管理辦法》) issued by CBRC on April 2, 2004, which provided stringent and detailed requirements on related party transactions of PRC commercial banks, require PRC commercial banks to adhere to the principles of good faith and fairness in conducting related party transactions. PRC commercial banks are not allowed to grant unsecured loans to related parties. Under PRC laws and regulations, related party transactions of commercial banks are required to be based on commercial principles and on terms no more favorable than similar transactions with non-related parties. These measures also set out detailed provisions on the definition of a related party, the form and content of a related party transaction as well as the procedures and principles which must be followed for related party transactions.

**RISK MANAGEMENT**

Since its inception, CBRC has published, in addition to guidelines concerning granting loan and credit to certain specific industries and customers and measures in respect of the implementation of Basel Accords, numerous risk management guidelines and rules in an effort to improve the risk management of PRC commercial banks, including operational risk management, market risk management, compliance risk management, liquidity risk management, IT technology risk management and a supervisory rating system. For the measures in respect of the implementation of Basel Accords, please see "— Supervision over Capital Adequacy — Basel Accords". CBRC also issued the Core Indicators (Trial) as a basis of supervising the risk management of PRC commercial banks. CBRC established requirements for certain ratios relating to risk levels, risk migration and risk offset in the Core Indicators (Trial) and is expected to establish certain ratios relating to risk mitigation for the purpose of evaluating and monitoring the risks of PRC commercial banks. Please see "— Other Operational and Risk Management Ratios". CBRC periodically collects relevant data through off-site surveillance to analyze such indicators and evaluate and issue early warnings of the risks on a timely basis.

**Operational Risk Management**

On March 22, 2005, CBRC issued the Circular on Strengthening Control of Operational Risk (《關於加大防範操作風險工作力度的通知》) to further strengthen PRC commercial banks' ability to identify, manage and control operational risks. According to the circular, commercial banks are required to develop specific internal policies and procedures for the management and control of operational risks. The internal compliance department and business operation departments of banks shall carry out independent and *ad hoc* examinations and review on their business operations from time to time, and conduct ongoing examination and review on business areas with higher operational risks. In addition, headquarters of commercial banks shall assess the implementation of, and compliance with, their internal policies and procedures with respect to operational risks.

The circular sets out detailed requirements relating to, among other things: establishing a system under which officers at junior level responsible for business operations are required to rotate on a regular basis and have compulsory leave; establishing a system to encourage employees to fully comply with applicable regulations and internal rules and policies; improving the regular checking of account balances between PRC commercial banks and their customers; improving the timely checking of the banks' internal accounting; segregating persons responsible for bookkeeping from those responsible for account reconciliation; and establishing a strict system for the management, keeping and disposal of chops, specimen signatures and evidential vouchers.

In addition, on May 14, 2007, CBRC issued the Guidelines on Operational Risk Management of Commercial Banks (《商業銀行操作風險管理指引》) to enhance the risk management abilities of the PRC commercial banks. The guidelines mainly provide the requirements on, among other things, the supervision and control of the board of directors, responsibilities of senior management, proper organizational structure, and operational risk management policies, approaches, procedures and rules in relation to capital requirement for operational risks of provisions. Such policies and procedures are required to be submitted to CBRC for filing. If a significant operational risk occurs and the commercial bank fails to adopt effective corrective measures within a specified period, CBRC has the power to take relevant regulatory measures.

**Market Risk Management**

On December 29, 2004, CBRC promulgated the Guidelines on the Market Risk Management of Commercial Banks (《商業銀行市場風險管理指引》) with effect from March 1, 2005 to strengthen the market risk management of PRC commercial banks. These guidelines address (among other things): (i) the responsibilities of the board of directors and the senior management in supervising market risk management; (ii) the policies and procedures for market risk management; (iii) the detection, quantification, monitoring and control of market risk; (iv) the responsibilities for internal control and conducting external audits; and (v) appropriate capital allocation mechanism for market risks. Under these guidelines, commercial banks are required to formulate official policies and procedures in writing to manage the market risks.

In addition, the Capital Administrative Measures (《資本管理辦法》) provide the basic criteria, approval procedure and other requirements that commercial banks shall comply with when adopting the internal model to measure their market risk capital.

**Compliance Risk Management**

On October 20, 2006, CBRC promulgated the Guidelines on Compliance Risk Management of Commercial Banks (《商業銀行合規風險管理指引》) which clarified the responsibilities of the board of directors, the supervisory board and the senior management of a PRC commercial bank with respect to compliance risk management, standardized the organizational structure for compliance risk management and set out the regulatory mechanisms for a bank's compliance risk management.

**Liquidity Risk Management**

On August 29, 2015, the Standing Committee of the National People's Congress promulgated the Decision on Amending the PRC Commercial Bank Law （《關於修改〈中華人民共和國商業銀行法〉的決定》）. According to such decision, with effect from October 1, 2015, the requirement that the loan-to-deposit ratio shall not exceed 75% will no longer be applicable for commercial bank loans and the relevant provisions on the penalties for non-compliance with the aforementioned loan-to-deposit ratio imposed by the banking regulatory authorities of the State Council were also abolished.

The Administrative Measures on the Liquidity Risk of Commercial Banks (Trial) (CBIRC Order [2018] No.3) (《商業銀行流動性風險管理辦法》), which was issued on May 23, 2018 by CBIRC, mainly introduced: (i) the liquidity risk management responsibilities of a commercial bank's board of directors, senior management, board of supervisors and the specialized internal department in charge of liquidity risk management; (ii) the strategy, policy and procedure of liquidity risk management; (iii) the identification, measurement, supervision and control of liquidity risk; and (iv) the calculation methods of liquidity coverage ratio, loan-to-deposit ratio and liquidity ratio.

**Information Technology Risk Management**

On March 3, 2009, CBRC issued the Guidelines on Information Technology Risk Management in Commercial Banks (《商業銀行信息科技風險管理指引》). The guidelines have explicit requirements on IT governance, Information technology risk management, information security, information system development, test and maintenance, IT operation, business continuity management, outsourcing, internal and external audit. It also provides that the objectives of Information technology risk management shall be the identification, measurement, monitoring and control of Information technology risks of commercial banks by setting up effective measures to enhance safe, continual and steady operation of commercial banks, to facilitate business innovation, to promote the use of information technology and to improve their core competitiveness and sustainable development capacities.

On December 28, 2011, Guidelines on the Supervision of Business Continuity of Commercial Banks was issued by the CBRC to outline the basic principles, organizational structure, analysis of the impact on business operation, planning and allocation of resources, implementation and continuous improvement, contingency plan for business interruption, supervision and disciplinary action in relation to the management of sustainability of business operation. The guidelines reveals that business continuity effective handling interruption to major business by commercial banks, is a comprehensive management process for the development of contingency plan and the resumption of operation and management to ensure the continuity of major business. The enhanced management of business continuity can maintain public confidence in the banking industry and is an important protection of the normal operation of banking business.

On February 16, 2013, CBRC issued the Regulatory Guidelines for Information Technology Outsourcing Risk of Banking Financial Institutions (《銀行業金融機構信息科技外包風險監管指引》) to further regulate the information technology outsourcing activities of banking financial institutions to reduce the information technology outsourcing risk.

On September 3, 2014, CBRC issued the Guidance Opinions on the Use of Secure and Controllable Technology by Banking Financial Institutions to Strengthen Internet Security and Information System Construction (《關於應用安全可控信息技術加強銀行業網絡安全和信息化建設的指導意見》), which requires banking financial institutions to (i) improve their information technology governance structure; (ii) strengthen information system structure; (iii) prioritize the use of secure and controllable technology; (iv) promote the self-development capability of information technology; (v) actively participate in the research and development of secure and controllable technology; and (vi) strengthen intellectual property rights protection and enhance business standardization. In addition to the above, CBRC has issued guidelines in relation to several other risks, including the Measures for the Administration of Reputation Risk of Banking Insurance Institutions (Trial) (《銀行保險機構聲譽風險管理辦法（試行）》) and the Guidelines on Country Risk Management of Banking Financial Institutions (《銀行業金融機構國別風險管理指引》), all in an effort to strengthen commercial banks' risk management capacity in relevant fields.

**Supervisory Rating System**

Pursuant to the Internal Guidelines on Supervisory Ratings for Commercial Banks (《商業銀行監管評級內部指引》) promulgated by CBRC on June 19, 2014, all commercial banks established in the PRC are subject to evaluation by CBRC based on a supervisory rating system. According to the guidelines, the capital adequacy, asset quality, management quality, profitability, liquidity and exposure to market risk and Information technology risk of commercial banks are evaluated and scored by CBRC on a continuous basis. Each bank is classified into one of the six supervisory rating categories based on the scores. The results of ratings will serve as the main basis for the regulatory authorities to evaluate the risk level of commercial banks and as a basis for the regulatory authorities to implement their classified supervision and supervisory measures.

**OWNERSHIP AND SHAREHOLDER RESTRICTIONS**

**Regulations on Equity Investment in Banks**

According to the Measures of CBIRC for the Implementation of Administrative Licensing Matters Concerning Rural Small and Medium Banking Institutions (《中國銀保監會農村中小銀行機構行政許可事項實施辦法》) promulgated by CBIRC on December 26, 2019, an application of a rural commercial bank for modifying the shareholders that hold 10% or more of its total share capital shall be handled by the local offices of municipal level or provincial level in the city where it is situated, and shall be reviewed and decided by the local offices of provincial level in the city where it is situated and then reported to CBIRC. An application of a rural commercial bank for modifying the shareholders that hold more than 5% but less than 10% of its total share capital shall be handled, reviewed and decided by the local offices of municipal level or provincial level in the city where it is situated,. An application of a rural commercial bank for modifying the shareholders that hold more than 1% but less than 5% of its total share capital shall be reported to the local offices of municipal level or provincial level in the city where it is situated by the corporate body.

**Regulations on Shareholding Management of Banks**

On January 5, 2018, the Interim Measures on Shareholding Management of Commercial Banks (《商業銀行股權管理暫行辦法》) was issued. These measures are applicable to all commercial banks established within the PRC according to the laws, and further consolidate and reinforce the regulations in relation to the shareholding management of commercial banks under previous laws and regulations. Commercial banks are required to adopt categorized management of its shareholding structure, ensure the sound background of shareholders with clear relationship, rights and obligations, and implement open and transparent shareholding management policies. Major regulations include, without limitation to, that: (i) the shares held by a shareholder and its related parties and parties act in concert shall be calculated aggregately, and the commercial bank shall adhere to the "look-through" approach for the management of the major shareholders and their respective controlling shareholders, de facto controllers, related parties, parties act in concert and ultimate beneficial owners as the related parties of the commercial bank; (ii) commercial bank shall fully disclose the shares held by each of the major shareholders (i.e. a shareholder who holds or controls five percent or more of the shares or voting rights of the commercial bank, or who is interested in less than five percent of the total capital or shares of the commercial bank, but can exercise significant influence to the operation management of the commercial bank), the details regarding their respective de facto controllers and ultimate beneficial owners, and their connected relationship or act-in-concert relationship with other shareholders; (iii) unless otherwise provided under these measures, any investor and its related parties and parties act in concert may not become the major shareholders of more than two commercial banks, and may not become the controlling shareholders of more than 1 commercial bank; (iv) unless otherwise provided under these measures, a major shareholder of the commercial bank shall be prohibited from transferring its shareholdings within five years from the date when it becomes a shareholder, and shall not hold shares in the commercial bank through issuing, managing or otherwise controlling any financial products; (v) commercial banks shall put more efforts in the examination of qualifications of shareholders, and shall verify and keep track of the changes in the information of the major shareholders and their respective controlling shareholders, de facto controllers, related parties, parties act-in-concert and ultimate beneficial owners. Commercial banks shall analysis the impact of shareholders on the operation and management, and issue report or disclosure on relevant information timely, accurately and completely according to the laws; (vi) commercial banks shall establish equity custody system and place all equities in qualified custodian organizations for centralized custody management. Specific requirements for the custody shall be in compliance with the rules of the banking regulatory departments in the PRC; (vii) total outstanding loans granted by a commercial bank to its major shareholders or their respective controlling shareholders, de facto controllers, related parties, parties act-in-concert and ultimate beneficial owners in aggregate shall not exceed 10% of the net capital of the commercial bank. The total outstanding loans granted to a single major shareholder and its controlling shareholders, de facto controllers, related parties, parties act-in-concert and ultimate beneficial owners in aggregate shall not exceed 15% of the net capital of the commercial bank; and (viii) these measures have explicitly state the acts in violation of the requirement by the shareholders, and the actions that the regulatory authorities may take, including to impose restriction on the rights of the shareholders and order the controlling shareholders to transfer their equities.

**Restrictions on Shareholders**

In accordance with the Notice of the MOF, PBoC, CBRC, CSRC, CIRC on the Regulation of Internal Staff Shares in Financial Enterprises (《財政部、中國人民銀行、銀監會、證監會、保監會關於規範金融企業內部職工持股的通知》) which was promulgated by the MOF, PBoC and CBRC on September 15, 2010, the total shareholdings of staff shall not exceed 20% of the total share capital of the company, and the shareholding of individual staff shall not exceed 2% of the total share capital of the company. In addition, upon completion of public offering of new shares, the total shareholdings of staff shall not exceed 10% of the total share capital of the company, and the shareholding of an individual staff shall not exceed 1‰ of the total share capital or 500,000 shares, whichever is lesser. No approval for the public offering will be granted if a bank fails to meet such requirements.

The Corporate Governance Standards impose additional requirements on shareholders of commercial banks. For example, substantial shareholders shall make long-term written commitments to commercial banks to replenish capital when necessary. If shareholders of a commercial bank fail to repay outstanding loans when due, their voting rights shall be restricted. If substantial shareholders of a commercial bank fail to repay outstanding loans when due, their voting rights at general meetings and the voting rights of directors nominated or appointed by them at board meetings shall be restricted.

The Interim Measures for Management of Equity Interest in Commercial Bank (《商業銀行股權管理暫行辦法》) have further restrictions on substantial shareholders of commercial banks in China, such as (i) the rights and obligations of substantial shareholders shall be strictly governed in accordance with the applicable laws, regulations, administrative policies and articles of association of the bank, and shall not improperly interfere the authority of the board of directors and senior management in decision making or business operations as authorized by articles of associations; (ii) substantial shareholders shall not bypass board of directors or senior management to interfere or influence business operation and management of commercial banks, tunneling or to act in a manner that would jeopardize the legal rights of deposit customers, the bank, or other shareholders; (iii) effective measures shall be adopted to prevent the transfer of risk among the substantial shareholders, the bank and related entities; and (iv) a substantial shareholder shall prevent conflict of interest through proper management of the common appointment of key positions in a commercial bank and its related entities, including director, supervisor or members of senior management.

In addition, the PRC Company Law and relevant CBRC rules and regulations impose certain restrictions on the ability of a commercial bank's shareholders to pledge their shares. For example, a commercial bank may not accept its own shares as collateral. In November 2013, CBRC issued the Notice on Enhanced Management of Pledge of Equity Interest in Commercial Banks (《中國銀監會關於加強商業銀行股權質押管理的通知》) (the "Notice"), pursuant to which commercial banks are required to clearly stipulate the following matters in their articles of associations : (i) If shareholders pledge their shares to provide guarantees for themselves or others, they shall comply strictly with the laws, regulations and the requirements of regulatory authorities, and inform the board of directors of the bank in advance. Where a shareholder, who has representation on the board of directors or the board of supervisors, or directly, indirectly or jointly holds or controls more than 2% of shares capital or voting rights in the bank pledges his or her or its equity interests in the bank, he or she or it shall make a filing to the board of directors of the bank prior to the pledge. The filing shall state the basic information of the pledge, including the reasons for the pledge, the number of shares involved, the term of pledge and the particulars of the pledgees. Where the board of directors considers the pledge to be materially adverse to the stability of the bank's shareholding structure, the corporate governance as well as the control of risk and connected transactions, the filing shall not be accepted. The director(s) nominated by a shareholder proposing to pledge his or her or its shares in the bank shall abstain from voting at the meeting of the board of directors at which such proposal is considered; (ii) upon the registration of pledge of equity interests, the shareholders involved shall provide the bank with the relevant information in relation to the pledge of equity interests in a timely manner, so as to facilitate the bank's risk management and information disclosure compliance; (iii) where the balance of loans extended by a bank to its shareholder exceeds the audited net value of his or her or its equity for the preceding year, the shareholder cannot use his or her or its stake in the bank as pledge; and (iv) where a shareholder pledges 50% or more of his or her or its equity interests in the bank, the voting rights of such shareholder at the shareholders' general meetings, as well as the voting rights of the director(s) designated by such shareholder at board meetings, shall be subject to restrictions.

The Notice provides that if commercial banks are unable to satisfy the regulatory requirements, the PRC regulatory authorities may request such commercial banks to formulate rectification plans and may take corresponding regulatory and administrative measures if necessary. However, the Notice has not specifically set out the details of relevant regulatory and administrative measures.

Our currently effective Articles of Association stipulates the voting restriction provisions in accordance with the Notice.

On April 19, 2018, PBoC, CBIRC and CSRC issued and implemented the Guidance Opinions on Enhancing Regulations over Investment in Financial Institutions Made by Non-financial Enterprises (《關於加強非金融企業投資金融機構監管的指導意見》), which requires that the substantial shareholders or controlling shareholders of financial institutions shall have prominent core businesses, solid capital strengths, sound corporate governance, clear shareholding structure, satisfactory management, excellent financial conditions, moderate gearing ratio and leverage and reasonable and explicit business plans for investment in the financial industry. Companies with unreasonable business plans, irrational expansion into the financial industry, impure motives for investing in the financial industry and unsatisfactory risk management shall be strictly prohibited from becoming substantial shareholders or controlling shareholders of financial institutions.

**Anti-money Laundering Regulation**

The PRC Anti-Money Laundering Law (《中華人民共和國反洗錢法》), which became effective on January 1, 2007, sets out the responsibilities of the relevant financial regulatory authorities regarding anti-money laundering, including the formulation of the anti-money laundering rules and regulations for financial institutions. In accordance with the Anti-Money Laundering Regulations for Financial Institution (《金融機構反洗錢規定》), PRC commercial banks are required to establish a specialized department or designate an internal department to implement their anti-money laundering procedures. In accordance with the Administrative Measures for the Financial Institutions' Report of Large-Sum Transactions and Doubtful Transactions (《金融機構大額交易和可疑交易報告管理辦法》), upon the detection of any suspicious transactions or transactions involving large amounts, commercial banks are required to report the relevant transactions to PBoC or the State Administration of Foreign Exchange (where applicable). Where necessary and pursuant to appropriate judicial proceedings, commercial banks are required to cooperate with government authorities in preventing money laundering activities and in freezing assets. Furthermore, in accordance with the Measures on the Administration of Client Identity Identification and Data and Transaction Recording of Financial Institutions

(《金融機構客戶身份識別和客戶身份資料及交易紀錄保存管理辦法》), commercial banks are required to set up a system to record the identities of all customers and the information relating to their deposit, settlement and other transactions in relevant banks. The administrative department of anti-money laundering of the State Council and its local offices supervise and conduct on-site examinations of commercial banks' compliance with the anti-money laundering laws and regulations, and may impose penalties for any violations thereof in accordance with the PRC Anti-Money Laundering Law.

On January 29, 2019, the CBIRC issued the Administrative Measures for Anti-money Laundering and Anti-terrorist Financing by Banking Financial Institutions(《銀行業金融機構反洗錢和反恐怖融資管理辦法》), providing that local offices of the banking regulatory authorities under the State Council are responsible for the supervision and administration of anti-money laundering and anti-terrorist financing by banking financial institutions under their respective jurisdiction according to the laws, administrative regulations and measures. Banking financial institutions shall establish and improve a risk management system for money laundering and terrorist financing, comprehensively identify and assess their own risks of money laundering and terrorist financing, and adopt policies and procedures commensurate with the risks. Banking financial institutions shall also incorporate the risk management of money laundering and terrorist financing into a comprehensive risk management system, and embed the requirements for anti-money laundering and anti-terrorist financing in the compliance management and internal control system to ensure that the risk management system for money laundering and terrorist financing may completely cover various products and services.

In accordance with the Measures for the Supervision and Administration of the Anti-money Laundering and Anti-terrorist Financing by Financial Institutions (《金融機構反洗錢和反恐怖融資監督管理辦法》) promulgated by PBoC on April 15, 2021, PBoC and its branch offices are responsible for the supervision and administration of the anti-money laundering and anti-terrorist financing activities of financial institutions. Financial institutions are required to establish comprehensive internal control systems for anti-money laundering and anti-terrorist financing; to assess the risks of money laundering and terrorist financing; to establish risk control systems based on their respective risk profile and scales of operation; to establish information reporting systems for anti-money laundering; and to establish or assign departments with necessary staff to perform the obligations of anti-money laundering and anti-terrorist financing.

## OTHER REQUIREMENTS

### Use of Funds

Under the PRC Commercial Bank Law, commercial banks are not permitted to engage in trust investment or securities activities, or invest in real property other than for their own use, or invest in non-bank financial institutions and enterprises, unless otherwise approved by the relevant government authorities or otherwise stipulated by relevant laws and regulations. The use of funds by commercial banks is limited to the following:

- short-term, medium-term and long-term loans;
- acceptance and discounts on instruments;
- interbank loans;
- trading of debt securities issued by the PRC central and local government;

- trading of bonds issued by financial institutions;
- investment in banking financial institutions; and
- other uses approved by the relevant government authorities.

Upon approval by CBRC and other relevant authorities, commercial banks may invest their funds in domestic insurance companies, fund management companies and financial lease companies.

**Periodic Reporting System**

In accordance with the Notice on the Official Operation of Off-site Regulatory Information System in 2007 (《關於非現場監管信息系統2007年正式運行的通知》) issued by CBRC, rural commercial banks are required to submit relevant statements to the banking regulatory authorities on a regular basis, including basic financial information, credit risk, liquidity risk, capital adequacy ratio and such other information as required under such notice. Statements including the balance sheet, the checklist of liquidity ratio and other similar information are required to be submitted on a monthly basis, the statement of financial derivative instrument business, the income statement and other similar information on a quarterly basis, the interest rate re-pricing and risk table on a half-yearly basis and the statement of profit distribution and the table of loan quality migration and other similar information on an annual basis.

Pursuant to the Guidelines on the Management and Regulation of Consolidated Financial Statements of Commercial Banks (《商業銀行併表管理與監管指引》) promulgated by CBRC, the scope of account consolidation of commercial banks shall be determined in accordance with the prevailing PRC accounting standards for enterprises, while the scope of capital consolidation shall be determined in accordance with capital regulations and other relevant regulatory requirements.

Pursuant to the Capital Administrative Measures, when calculating the consolidated capital adequacy ratio, a commercial bank shall consolidate the following domestic and overseas financial institution investees: (i) a financial institution investee in which the commercial bank directly or indirectly holds more than 50% of voting rights; (ii) a financial institution investee in which the commercial bank holds 50% or less of voting rights but which falls within any of the following circumstances: the commercial bank holds more than 50% of voting rights in such financial institution in accordance with an agreement with other investors; the commercial bank has the power, as vested by the articles of association or any agreement, to decide the financial and operating policies of such financial institution; the commercial bank has the power to appoint or remove the majority of the members of the board of directors or a similar power body of such financial institution; or the commercial bank holds a majority of voting rights within the board of directors or any other similar power body of such financial institution investee; and (iii) a financial institution investee which is actually controlled by the commercial bank as proved by other evidences. "Control" means that a company is able to decide the financial and operating policies of another company and gain profits from the business operations of the latter.

**REGULATION AND SHAREHOLDERS' APPROVALS**

We have obtained our shareholders' approval for the proposed Listing. See Appendix VII — "Statutory and General Information — 1. Further Information about Our Bank — D. Resolutions of Our Shareholders".

We have also obtained approvals from CBIRC Guangdong Office and CSRC for the Global Offering and the application of the Listing of our H Shares on the Hong Kong Stock Exchange on June 16, 2020 and May 14, 2021 respectively.

## HISTORY AND DEVELOPMENT

### Overview

Our history can be traced back to 1952 where eight credit groups were established in Dongguan, among which, Xinji Credit Group* (新基信用互助組) has been upscaled as Xinji Credit Cooperative* (新基信用合作社), being the first credit cooperative in Dongguan, in 1953. Pursuant to a decision of the State Council in 1996, the rural credit cooperatives in the PRC ceased to be administered by the Agricultural Bank of China and the rural cooperatives in Dongguan subsequently came under the management of Dongguan Rural Credit Cooperatives Association* (東莞農村信用合作社聯合社) and were regulated by PBoC.

In 2004, the CBRC Guangdong Office principally approved the commencement of reform of Dongguan Rural Credit Cooperatives as single legal entity in city level and Dongguan Rural Credit Cooperatives Association* and the rural credit cooperatives of 32 towns in Dongguan underpinned have been merged as a legal entity, namely Dongguan Rural Credit Cooperatives Union (東莞市農村信用合作聯社) in 2005.

In August 2009, the People's Government of Guangdong Province approved the commencement of the restructuring of Dongguan Rural Credit Cooperatives Union into a joint-stock limited liability company. Subsequently, with the approval of the CBRC, our Bank was established and registered with the Dongguan Administration for Industry and Commerce in December 2009, with 69 corporate and 57,842 individual members of Dongguan Rural Credit Cooperatives Union as the promoters of our Bank.

Since our inception, we have established over 500 outlets and established two non-wholly owned rural commercial bank subsidiaries, namely Zhanjiang RCB and Chaoyang RCB, and have four non-wholly owned county bank subsidiaries, namely Huizhou Zhongkai Dongying County Bank, Yunfu Xinxing Dongying County Bank, Dongguan Dalang Dongying County Bank and Hezhou Babu Dongying County Bank.

With a view to further implement our strategy of developing into a group enterprise, our Bank also invested in and held equity interest in other banks in the PRC, including approximately 8.0%, 7.94% and 2.5% equity interest in Guangdong Lechang Rural Commercial Bank Co., Ltd. (廣東樂昌農村商業銀行股份有限公司), Guangdong Xuwen Rural Commercial Bank Co., Ltd. (廣東徐聞農村商業銀行股份有限公司) and Guangdong Shunde Rural Commercial Bank Co., Ltd. (廣東順德農村商業銀行股份有限公司), respectively, in Guangdong Province and approximately 15% equity interest in Yaan Rural Commercial Bank Co., Ltd. (雅安農村商業銀行股份有限公司) in Sichuan Province.

### Material Acquisition during the Track Record Period

***Establishment of Zhanjiang RCB***

Zhanjiang RCB was established on October 26, 2019 by way of the merger of Zhanjiang City Chikan District Rural Credit Cooperative Union* (湛江市赤坎區農村信用合作聯社), Zhanjiang City Potou District Rural Credit Cooperative Union* (湛江市坡頭區農村信用合作聯社), Zhanjiang City Donghai Island Economic Development Test Zone Rural Credit Cooperative Union* (湛江市東海島經濟開發試驗區農村信用合作聯社) and Zhanjiang City Mazhang District Rural Credit Cooperative Union* (湛江市麻章區農村信用合作聯社) and offer for subscription of new shares. Upon incorporation, the total share capital of Zhanjiang RCB was RMB1,655 million, including RMB268.37 million being converted from the share capital of the four aforementioned cooperative unions at the conversion ratio of 1:1 and RMB1,386.63 million being subscribed for by the promoters of Zhanjiang RCB in cash.

Our Bank subscribed for 810 million new shares of Zhanjiang RCB at the consideration of RMB1,620 million and, together with the 7.76 million shares converted from the 7.76 million shares of Zhanjiang City Mazhang District Rural Credit Cooperative Union* originally held, our Bank held 817.76 million shares of Zhanjiang RCB in aggregate, representing approximately 49.41% of the total share capital of Zhanjiang RCB upon its establishment. Such consideration of RMB1,620 million was determined based on the plan for procurement of promoters (徵集發起人方案) which was in turn determined based on the preparation work plan (籌建工作方案) after taking into consideration of the capital needs for the establishment of Zhanjiang RCB. The Bank considers that the transaction, including its costs, is in the interest of the long term development of our Group and the Shareholders as a whole taking into account of (i) the branch network of the four cooperative unions, (ii) the transaction provides the opportunity for expanding the business of the Group into Zhanjiang, and (iii) such investment can further develop our Group into a regional modern rural commercial banking group.

As our Bank is the largest shareholder of Zhanjiang RCB and the shareholdings of the remaining shareholders of Zhanjiang RCB are widely dispersed, our Bank controls Zhanjiang RCB and consolidated the financial results of Zhanjiang RCB upon its establishment on October 26, 2019.

Zhanjiang RCB assumed the businesses of the four aforementioned cooperatives unions and is principally engaged in the provision of banking services in the urban districts of Zhanjiang in Guangdong Province.

***Establishment of Chaoyang RCB***

Our Bank participated in the reformation of Chaoyang RCCU as Chaoyang RCB where our Bank (i) acquired the rights to earnings of certain non-performing assets of Chaoyang RCCU at the consideration of RMB3,068.5 million, (ii) subscribed for new shares of Chaoyang RCB at the consideration of approximately RMB1,563.1 million and (iii) acquired shares from original shareholders of Chaoyang RCCU who are not eligible to be shareholders of Chaoyang RCB at the consideration of approximately RMB254.7 million, in order (a) for Chaoyang RCCU to improve its asset quality and replenish its tier-one capital for meeting the relevant regulatory indicator requirements and (b) to ensure promoters of Chaoyang RCB comply with the shareholder qualification requirement under the *Implementation rules on the issue of administrative approvals for small and medium banking organizations of the CBIRC* (《中國銀保監會農村中小銀行機構行政許可事項實施辦法》) for its reformation as rural commercial bank.

Chaoyang RCB was established on December 27, 2020 upon the reformation of Chaoyang RCCU and provides banking services mainly in Chaoyang (潮陽) and Chaonan (潮南) districts of Shantou (汕頭) in Guangdong Province. Upon incorporation, the total share capital of Chaoyang RCB was RMB1,202 million, including RMB576,776,800 being converted from the share capital of Chaoyang RCCU at the conversion ratio of 1:1 and RMB625,223,200 being subscribed for by our Bank in cash, among which our Bank held approximately 67.03% of the total share capital of Chaoyang RCB and we obtained a controlling interest in Chaoyang RCB.

*Acquisition of non-performing assets of Chaoyang RCCU*

On December 25, 2020, we acquired the rights to earnings of certain non-performing collateralized loans secured by real estate properties, non-performing guaranteed loans and foreclosed real estate collateral of Chaoyang RCCU (the "**Underlying NPA**") from a state-owned asset management company which had acquired the Underlying NPA from Chaoyang RCCU earlier on December 2, 2020 since only qualified asset management companies are permitted to conduct bulk purchase of non-performing assets of financial institutions in accordance with the relevant regulation promulgated by the MOF and CBRC. Our Bank paid a consideration of approximately RMB3,068.5 million for part of the rights to earnings of the Underlying NPA, which was determined with reference to the principal amount of such underlying assets. For details of the structure and arrangement of rights to earnings on credit assets, please see "Business — Rights to Earnings on Credit Assets".

Through acquiring non-performing assets of Chaoyang RCCU at its principal amount with cash consideration, Chaoyang RCCU was able to improve its asset quality by reducing the amount of non-performing assets and replenish its cash balance for meeting the relevant regulatory indicator requirements for its reformation as well as obtaining working capital for the future development of Chaoyang RCB and allowing Chaoyang RCB to acquire quality interest generating assets which in turn improves its financial performance.

Given we only acquired part of the rights to earnings of the Underlying NPA, we did not consolidate the entire Underlying NPA but initially recognized such rights to earnings as financial assets at fair value through profit or loss upon recognition based on the consideration paid and recognized a loss of RMB2,298.2 million based on the results of fair value assessment of such rights to earnings assets. For further details, please see "Financial Information — Results of Operations for The Years Ended December 31, 2019 and 2020 — Expected Credit Losses and Asset Losses". Such amounts were not eliminated upon the subscription of shares of Chaoyang RCB by our Bank and was separately accounted for in our financial statements because (i) the Underlying NPA had been derecognized by Chaoyang RCCU on December 2, 2020 upon the disposal to the aforementioned state-owned asset management company before our Bank's subscription for shares of Chaoyang RCB and therefore was not consolidated by Chaoyang RCB as of the date of the business combination on December 27, 2020; and (ii) the Underlying NPA was not consolidated by Chaoyang RCB or our Bank as of December 31, 2020.

*Subscription and acquisition of shares of Chaoyang RCB*

In addition, our Bank subscribed for 625,223,200 new shares of Chaoyang RCB at the price of RMB2.5 per share, for a total consideration of RMB1,563,058,000 and acquired 137,500,000 and 42,918,700 shares from certain original shareholders of Chaoyang RCCU who are not eligible to be shareholder of Chaoyang RCB at the price of RMB1.54 and RMB1.00 per share respectively, for a total consideration of RMB254,668,700. Such shareholders were not eligible to be shareholders of Chaoyang RCB mainly because (i) the aggregate shareholdings of such shareholders and their respective related parties exceeded the maximum threshold for non-financial institution shareholder (together with its related parties) of 10% permitted by the CBIRC, and/or (ii) the funds utilized by them to acquire shares of Chaoyang RCCU were ineligible funds, such as entrusted funds or debt capital, rather than self-owned funds as required by the relevant regulatory requirement.

The consideration for subscription of new shares of Chaoyang RCB was determined based on the plan for procurement of promoters (徵集發起人方案) which was in turn determined based on the preparation work plan (籌建工作方案) after taking into consideration of the capital needs for the establishment of Chaoyang RCB. As the respective original acquisition prices for shares of Chaoyang RCCU by the ineligible original shareholders of Chaoyang RCCU were different, having taken into consideration of their ineligibility to be shareholders of Chaoyang RCB due to their own reason, the consideration for acquisition of shares from them was determined to be 30% discount of their respective original price paid after arm's length negotiation, subject to a minimum of RMB1.00 per share, which is the par value of such shares.

The aggregate consideration paid for the shares of Chaoyang RCB by our Bank amounted to RMB1,817,726,700. Upon establishment of Chaoyang RCB, our Bank held 805,641,900 shares of Chaoyang RCB, representing approximately 67.03% of the total share capital of Chaoyang RCB and the financial results of Chaoyang RCB were consolidated into the financial statements of our Group upon its establishment on December 27, 2020.

*Reasons for and benefits of the transaction*

In light of the People's Government of the Guangdong Province's policy in reforming all the rural credit cooperatives, which generally have weaker risk management system, internal control and corporate governance policies, in Guangdong Province as rural commercial banks to enhance their management and improve the quality of their credit assets, our Bank has been invited by the People's Government of the Guangdong Province to participate in the reformation of Chaoyang RCCU as Chaoyang RCB.

Taking into consideration of our costs associated with the reformation of Chaoyang RCCU as Chaoyang RCB, which includes the subscription of new shares of Chaoyang RCB, acquisition of shares from ineligible original shareholders of Chaoyang RCCU and the acquisition of the rights to earnings of credit assets, we consider that the transaction is in the interest of the long term development of our Group and the shareholders as a whole as the transaction is a step for us to achieve our strategic objective of developing into a regional modern rural commercial banking group and to strengthen our presence in the Guangdong Province.

Shantou has been planned to be developed as the "east wing" province-wide sub-central city (副中心城市) of Guangdong Province by the People's Government of Guangdong Province as illustrated by its *Opinion on supporting Shantou developing a new era Chinese-style socialism modern energetic special economic zone* (《關於支持汕頭建設新時代中國特色社會主義現代活力經濟特區意見》) and the economic development of Shantou will provide opportunity for the further development of Chaoyang RCB.

In particular, Chaoyang RCB, which became our subsidiary upon its establishment, provides our Group with instant access to the branch network of Chaoyang RCCU, its predecessor, in Shantou which consists of 106 outlets and the client base of Chaoyang RCB in the local market which represented approximately 26.71% and 17.32% of the RMB-denominated deposits and loans of all the banking institutions in Chaoyang and Chaonan districts of Shantou, respectively, as at December 31, 2020 according to Chaoyang Branch of PBoC. After Chaoyang RCB became a subsidiary of our Bank, the customer base of our Group has been widened and Chaoyang RCB contributed approximately 678,700 personal deposit customers as at March 31, 2021, representing approximately 3.26% of the total number of personal deposit customers of our Group.

**Investment procedures**

As described in "Business — Our business strategies", our strategic objective is to develop into a regional modern rural commercial banking group. When assessing potential investment opportunities in other banking companies, we will set up a special task force lead by an executive Director to coordinate and conduct due diligence on the potential investment, including conducting site visits, analyzing the relevant market, conducting feasibility studies and to evaluate the mode of investment and the investment amount. The special task force will then report to the Board of Directors who will exercise their respective expertise and experience, such as the experience in the banking industry of our executive Directors, the experience acquired from their respective business by the non-executive Directors and the legal and accounting knowledge of the independent non-executive Directors. Shareholders' approval will then be sought if so required by the Articles of Association, regulatory requirements and/or the Listing Rules after the Listing.

**Milestones**

Key milestones in our history are summarized as follows:

| Year | Event |
|---|---|
| 1952 | Establishment of eight credit groups in Dongguan |
| 1953 | Upscale of Xinji Credit Group* (新基信用互助組) as Xinji Credit Cooperative* (新基信用合作社) |
| 1996 | The State Council promulgated a decision pursuant to which the rural credit cooperatives in the PRC ceased to be administered by the Agricultural Bank of China and the rural credit cooperatives in Dongguan subsequently came under the management of Dongguan Rural Credit Cooperatives Association* (東莞農村信用合作社聯合社) and were regulated by PBoC |
| 1999 | Dongguan Rural Credit Cooperatives Association* became the first batch of rural financial institutions entering the national interbank lending market and the national interbank bond market |
| 2001 | Dongguan Rural Credit Cooperatives Association* obtained the qualification to conduct foreign exchange business |
| 2003 | Official launching of Xintong Card, our RMB debit card |
| 2005 | Establishment of Dongguan Rural Credit Cooperatives Union （東莞市農村信用合作聯社） upon completion of reform of rural credit cooperatives in Dongguan as single legal entity, which involved the merger of Dongguan Rural Credit Cooperatives Association* and the rural credit cooperatives of 32 towns in Dongguan underpinned and offer for subscription of new shares |
| 2009 | Establishment of the legal entity constituting our Bank upon the restructuring of Dongguan Rural Credit Cooperatives Union |
| 2010 | Total assets exceeded RMB100 billion |
| 2011 | First listed among the "Top 500 World Banks" in terms of tier-one capital by *The Banker* |
| | Awarded the Dongguan Government Quality Award by the People's Government of Dongguan |
| 2012 | Moved into our current headquarters building, Dongguan Rural Commercial Bank Building, in Dongguan |
| | Obtained the approval for conducting credit card business |

| Year | Event |
|---|---|
| 2013 | First named "National Role Model Bank of Rural Commercial Bank" by the CBRC |
| | Official opening of Huizhou Sub-branch, our first sub-branch outside Dongguan |
| | Total assets exceeded RMB200 billion |
| 2014 | First invested in rural commercial bank and participated in the establishment of Yaan Rural Commercial Bank Co., Ltd. in Sichuan Province |
| 2015 | Named as the "Advanced Entity of Guangdong Province" by the Guangdong Province Committee of the Communist Party of China and the People's Government of the Guangdong Province |
| 2016 | Total assets exceeded RMB300 billion |
| | Ranked overall seventh among rural commercial banks in the Commercial Bank Sound Development Ability* (商業銀行穩健發展能力) 2016 published by the China Banking Association under the GYROSCOPE rating system |
| 2017 | Launched the building of four segment brands, namely retail finance, industrial finance, SME finance and interbank finance |
| | Official opening of Guangdong Pilot Free Trade Zone Nansha Branch, our first branch outside Dongguan |
| | Became the first prefecture-level city rural commercial bank rated AAA by CCICR |
| 2018 | Total assets exceeded RMB400 billion |
| | Official opening of Guangdong Pilot Free Trade Zone Hengqin Branch |
| 2019 | Establishment of Zhanjiang RCB |
| | Establishment of Dongguan City Rural Commercial Bank Education Charity Foundation* (東莞市農商銀行教育公益基金會) to support the development of education business in Dongguan |
| | Ranked 40th in the *2018 PRC Banking Industry Top 100* published by the China Banking Association |
| 2020 | Total assets exceeded RMB500 billion |
| | Establishment of Chaoyang RCB |
| 2021 | Launched "digital finance" as our fifth segment brand |

## CORPORATE STRUCTURE

### Shareholding Structure

As of the Latest Practicable Date, our Bank had 83 corporate Shareholders and 57,512 individual Shareholders, holding in aggregate approximately 23.72% and 76.28% of our Shares, respectively, among which there was only one Shareholder, namely Canvest Investment, an investment holding company, holding more than 5% of our issued Shares. Save for Canvest Investment, our Bank had no Shareholder holding more than 5% of our Shares since our establishment and up to the Latest Practicable Date. Throughout the Track Record Period and up to the Latest Practicable Date, Canvest Investment has been wholly-owned by Mr. Guo Huiqiang (郭惠強先生) who is interested in various companies incorporated in the PRC which mainly engaged in investment holding, construction, property management and trading businesses.

Canvest Investment has been our Shareholder since our establishment in December 2009, holding approximately 28,820,000 Domestic Shares, representing approximately 0.67% of our then issued Shares, converted from its original shareholding in Dongguan Rural Credit Cooperatives Union and subsequently reached its existing shareholding of 5.21% in August 2016 through various acquisitions of additional Domestic Shares from other Shareholders. Mr. Guo Huiqiang has been the general manager of Canvest Investment since its incorporation in 2002 and is currently its sole shareholder and directs and manages the operation of Canvest Investment. Canvest Investment and its subsidiaries principally engage in environmental protection, financial, property leasing and property development businesses in Dongguan.

As of the Latest Practicable Date, we were unable to verify the shareholdings of one corporate Shareholder and 291 individual Shareholders, together holding approximately 0.13% of our issued Shares mainly because we were unable to reach out to such Shareholders. Such Shares have been deposited with Guangdong Equity Exchange Co., Ltd.* as custodian and, as advised by our PRC Legal Advisor, the existence of such unverified shareholdings has no material adverse impact on the certainty and stability of our shareholding structure as the percentage of Shares held by those unverified Shareholders are relatively small.

### Changes in Registered Capital

At the time of establishment, the registered capital of our Bank was RMB4,312,888,438, contributed in the form of verified and appraised net assets of Dongguan Rural Credit Cooperatives Union. The following table sets forth the subsequent changes in our registered capital:

| Year | Change in registered capital |
|---|---|
| 2011 | Our registered capital was increased by RMB431,288,843 to RMB4,744,177,281 by way of capitalization of the undistributed profits of our Bank |
| 2012 | Our registered capital was increased by RMB474,417,728 to RMB5,218,595,009 by way of capitalization of the undistributed profits of our Bank |
| 2013 | Our registered capital was increased by RMB521,859,501 to RMB5,740,454,510 by way of capitalization of the undistributed profits of our Bank |

As at the Latest Practicable Date, the registered capital of our Bank was RMB5,740,454,510.

**Issuance of Bonds**

***Tier-two capital bonds***

In June 2017, with the approvals of PBoC and CBRC Guangdong Office, our Bank issued tier-two capital bonds of an aggregate principal amount of RMB4.0 billion for a term of 10 years with coupon rate of 5.00%, payable annually. The tier-two capital bonds may not be put back prematurely while our Bank has an option to redeem the bonds at the end of the fifth year from the date of issuance of the bonds with the approval of the relevant regulatory authority(ies).

***Green financial bonds***

In January 2019, with the approvals of PBoC and CBIRC Guangdong Office, our Bank issued green financial bonds of an aggregate principal amount of RMB2.0 billion for a term of three years with coupon rate of 3.50%, payable annually. In December 2020, with the approvals of PBoC and CBIRC Guangdong Office, our Bank issued another series of green financial bonds of an aggregate principal amount of RMB1.0 billion for a term of three years with coupon rate of 3.75%, payable annually.

Such green financial bonds may not be redeemed or put back prematurely. The proceeds from the issuance of the green financial bonds shall be used for the support of the green industry, such as pollution control, energy saving and clean energy projects.

***SME financial bonds***

In March 2020, with the approvals of PBoC and CBIRC Guangdong Office, our Bank issued SME financial bonds of an aggregate principal amount of RMB2.0 billion for a term of three years with coupon rate of 2.94%, payable annually. In March 2021, with the approvals of PBoC and CBIRC Guangdong Office, our Bank issued two series of SME financial bonds with aggregate principal amounts of RMB2.0 billion and RMB1.0 billion and coupon rates of 3.58% and 3.52%, respectively, both payable annually and with a term of three years. Such SME financial bonds may not be redeemed or put back prematurely and the proceeds from the issuance of the SME financial bonds shall be used for SME commercial loans.

***Sannong financial bonds***

In September 2020, with the approvals of PBoC and CBIRC Guangdong Office, our Bank issued Sannong financial bonds of an aggregate amount of RMB2.0 billion for a term of three years with coupon rate of 3.62% payable annually. The Sannong financial bonds may not be redeemed or put back prematurely. The proceeds from the issuance of the Sannong financial bonds shall only be used for agricultural loans.

**Our Subsidiaries**

As of the Latest Practicable Date, our Group consisted of six subsidiaries, all of which were incorporated in the PRC and were invested in by our Bank upon their respective establishment. The table below sets forth certain details of our subsidiaries:

| Name | Place and date of incorporation and share capital | Equity ownership as at the Latest Practicable Date | | Principal business activities |
|---|---|---|---|---|
| Huizhou Zhongkai Dongying County Bank | Huizhou, Guangdong Province/ December 13, 2010/ RMB300 million | Our Bank | 51% | Provision of banking services in Zhongkai Hi-tech District and Huicheng District in Huizhou, Guangdong Province |
| | | Huidong County Lijing Garden Environment Design Co., Ltd.* (惠東縣麗景園林環境藝術有限公司) | 10% | |
| | | Huizhou City Zhongkai Jinbao Industry Development Co., Ltd.* (惠州市仲愷金寶實業發展有限公司) | 7.33% | |
| | | Huizhou City Ruifeng Properties Co., Ltd.* (惠州市瑞峰置業有限公司) | 6.67% | |
| | | Huidong County Hengli Industry Co., Ltd.* (惠東縣恒利實業有限公司) | 5% | |
| | | Shenzhen City Tiange Investment Co., Ltd.* (深圳市天格投資有限公司) | 5% | |
| | | Huizhou City Taidong Industry Investment Co., Ltd.* (惠州市太東實業投資有限公司) | 5% | |
| | | Virtue Group Co., Ltd.* (富紳集團有限公司) | 5% | |
| | | Three other shareholders whose individual equity interest is less than 5% | 5% | |

| Name | Place and date of incorporation and share capital | Equity ownership as at the Latest Practicable Date | | Principal business activities |
|---|---|---|---|---|
| Yunfu Xinxing Dongying County Bank | Yunfu, Guangdong Province/ December 23, 2011/ RMB100 million | Our Bank | 51% | Provision of banking services in Xinxing county in Yunfu, Guangdong Province |
| | | Wens Foodstuff Group Co., Ltd.* (溫氏食品集團股份有限公司) | 9% | |
| | | Xinxing County Hunter Valley Precision Casting Co., Ltd.* (新興縣獵人谷精密鑄造有限公司) | 8% | |
| | | Dongguan City Xingye Knitting Co., Ltd.* (東莞市興業針織有限公司) | 8% | |
| | | Dongguan Nanfang Foodgrain & Cooking Oil Co., Ltd.* (東莞市南方糧油有限公司) | 8% | |
| | | Guangdong Xiangshun Real Estate Development Co., Ltd.* (廣東翔順房地產開發有限公司) | 8% | |
| | | Dongguan City Lakeside Garden Co., Ltd.* (東莞市碧湖花園有限公司) | 8% | |
| Dongguan Dalang Dongying County Bank*(Note 1)* | Dongguan, Guangdong Province/ June 25, 2012/ RMB100 million | Our Bank | 35% | Provision of banking services in Dalang County in Dongguan, Guangdong Province |
| | | Dongguan City Yanyu Shiye Investment Co., Ltd.* (東莞市雁裕實業投資有限公司) | 9% | |
| | | Guangzhou Yongwei International Trade Co., Ltd.* (廣州永威國際貿易有限公司) | 5% | |
| | | Dongguan City Xingye Knitting Co., Ltd.* (東莞市興業針織有限公司) | 4.9% | |
| | | Dongguan City Royal Garden Hotel Co., Ltd.* (東莞市帝豪花園酒店有限公司) | 4.9% | |

| Name | Place and date of incorporation and share capital | Equity ownership as at the Latest Practicable Date | | Principal business activities |
|---|---|---|---|---|
| | | Dongguan City Jianqi Industrial Investment Co., Ltd.* (東莞市建齊實業投資有限公司) | 4.5% | |
| | | Zheng Yaonan (鄭耀南) | 4.5% | |
| | | Deng Yunnan (鄧運南) | 4.5% | |
| | | Zhang Hongxin (張洪新) | 4.5% | |
| | | Liu Suling (劉素玲) | 4.5% | |
| | | Eight other shareholders whose individual equity interest is less than 4% | 18.7% | |
| Hezhou Babu Dongying County Bank | Hezhou, Guangxi/ August 8, 2012/ RMB100 million | Our Bank | 51% | Provision of banking services in Babu District and Pinggui District in Hezhou, Guangxi |
| | | Guangxi Small and Medium Enterprise Venture Capital Investment Co., Ltd.* (廣西中小企業創業投資有限公司) | 7.5% | |
| | | Dongguan City Huangcheng Development Co., Ltd.* (東莞市篁城開發有限公司) | 6.13% | |
| | | Guangdong Dingfeng Real Estate Group Co., Ltd.* (廣東鼎峰地產集團有限公司) | 6.13% | |
| | | Canvest Environmental Protection Investment Limited* (廣東粵豐環保投資有限公司) | 6.13% | |
| | | Hezhou City Xinhuafa Powder Co., Ltd.* (賀州市新華發粉體有限公司) | 5% | |
| | | Guangxi Hezhou City Huili Design and Decoration Project Co., Ltd.* (廣西賀州市匯麗設計裝飾工程有限公司) | 5% | |

| Name | Place and date of incorporation and share capital | Equity ownership as at the Latest Practicable Date | | Principal business activities |
|---|---|---|---|---|
| | | Guangxi Hezhou City Zhengfeng Modern Agriculture Co., Ltd.* (廣西賀州市正豐現代農業股份有限公司) | 5% | |
| | | Three other shareholders whose individual equity interest is less than 5% | 8.13% | |
| Zhanjiang RCB(Note 2) | Zhanjiang, Guangdong Province/ October 26, 2019/ RMB1,655 million | Our Bank | 49.41% | Provision of banking services in Chikan District, Potou District, Xiashan District, Mazhang District and Economic and Technology Development Zone in Zhanjiang, Guangdong Province |
| | | Zhanjiang City Infrastructure Construction Investment Group Co., Ltd.* (湛江市基礎設施建設投資集團有限公司) | 13.05% | |
| | | Dongguan City Garwin Group Co., Ltd.* (東莞市嘉宏集團有限公司) | 9.97% | |
| | | Ma Weiqiang (馬偉強) | 1.99% | |
| | | 6,226 other shareholders whose individual equity interest is less than 1% | 25.58% | |
| Chaoyang RCB | Shantou, Guangdong Province/ December 27, 2020/ RMB1,202 million | Our Bank | 67.03% | Provision of banking services in Chaoyang District and Chaonan District in Shantou, Guangdong Province |
| | | Shantou City Nanxin Investment Co., Ltd.* (汕頭市南信投資有限公司) | 4.78% | |
| | | Shantou City Fule Real Estate Co., Ltd.* (汕頭市富樂房地產有限公司) | 2.12% | |
| | | Shantou City Jinliu Trading Co., Ltd.* (汕頭市金流貿易有限公司) | 2.11% | |
| | | 2,809 other shareholders whose individual equity interest is less than 1% | 23.96% | |

*Notes:*

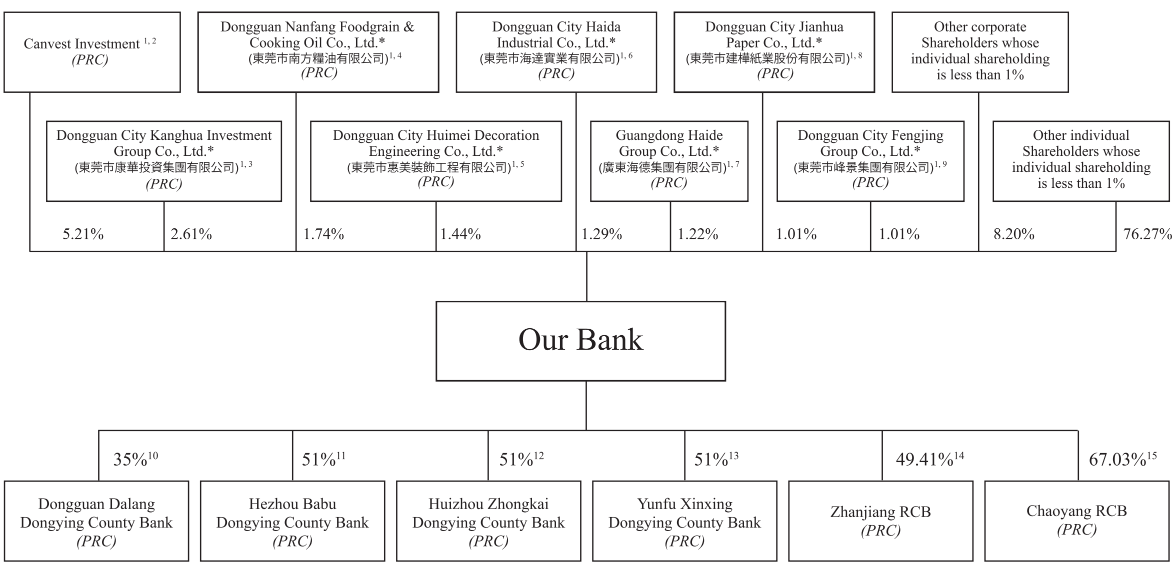
1. Although our Bank held only 35% of the equity interest of Dongguan Dalang Dongying County Bank, the financial results of Dongguan Dalang Dongying County Bank were consolidated into the financial statements of our Group in accordance with the applicable accounting standard as our Bank effectively control Dongguan Dalang Dongying County Bank through controlling 51% of its voting rights in aggregate as at the Latest Practicable Date through acting in concert agreement to vote as directed by our Bank entered into with shareholders holding 16% of equity interest, namely, Dongguan City Xingye Knitting Co., Ltd.*, Dongguan City Royal Garden Hotel Co., Ltd.* and two other shareholders whose individual equity interest is less than 4%.

2. Although our Bank held only 49.41% of the equity interest of Zhanjiang RCB, the financial results of Zhanjiang RCB were consolidated into the financial statements of our Group in accordance with IFRS 10 as our Bank is its largest shareholder and the shareholdings of the remaining shareholders are fragmented.

### Shareholding Structure Chart

#### *Immediately before the Global Offering*

The chart below sets forth the shareholding and corporate structure of our Group immediately prior to the Global Offering:




*Notes:*

1. To the best knowledge of the Directors, save for certain ultimate beneficial owners of such Shareholders who are also members of the Board of Directors as set forth below, there is no acting in concert agreement among the ultimate beneficial owners of such Shareholders in respect of the Shares of our Bank, and none of the ultimate beneficial owners of such Shareholders is an associate (within the definition of the Listing Rules) of the ultimate beneficial owner of another such Shareholder.

2. As at the Latest Practicable Date, Canvest Investment was wholly-owned by Mr. Guo Huiqiang (郭惠強先生).

3. As at the Latest Practicable Date, Dongguan City Kanghua Investment Group Co., Ltd.* was owned as to 97.46% by Mr. Wang Junyang, our non-executive Director, and 2.54% by Ms. Wang Aici (王愛慈), an auntie of Mr. Wang Junyang. Mr. Wang is deemed to be interested in all the Domestic Shares held by Dongguan City Kanghua Investment Group Co., Ltd.* under the SFO.

4. As at the Latest Practicable Date, Dongguan Nanfang Foodgrain & Cooking Oil Co., Ltd.* was owned as to 80% by Cai Hanzhen (蔡漢珍), a sister of Mr. Cai Guowei, our non-executive Director, and 20% by Cai Weiguo (蔡偉國), an independent third party.

5. As at the Latest Practicable Date, Dongguan City Huimei Decoration Engineering Co., Ltd.* was owned as to (i) 99.20% by Guangdong Zhonghui Group Co., Ltd.* (廣東中惠集團有限公司), which in turn is owned as to 51% by Ye Huiquan (葉惠全) and 49% by Yu Danyun (餘丹雲); and (ii) 0.80% by Ye Huiquan.

6. As at the Latest Practicable Date, Dongguan City Haida Industrial Co., Ltd.* was owned as to 60% by Lin Limei (林麗梅) and 40% by Zheng Rundi (鄭潤弟).

7. As at the Latest Practicable Date, Guangdong Haide Group Co., Ltd.* ("**Guangdong Haide**") was owned as to (i) 25% by Mr. Ye Jinquan, our non-executive Director; (ii) 25% by Dongguan City Botong Shiye Investment Co., Ltd.* (東莞市博通實業投資有限公司), which in turn is owned as to 96% by Mr. Ye Jinquan and 4% by Ms. Deng Shaohong (鄧少紅), spouse of Mr. Ye Jinquan; (iii) 25% by Dongguan City Commercial Center Development Co., Ltd.* (東莞市商業中心發展有限公司), which in turn is owned as to 96% by Mr. Ye Jinquan and 4% by Ms. Deng Shaohong; (iv) 24% by Dongguan City Hengyi Shiye Investment Co., Ltd.* (東莞市恒億實業投資有限公司), which in turn is owned as to 51% by Guangdong Haide, 39% by Mr. Ye Jinquan and 10% by Ms. Deng Shaohong; and (v) 1% by Ms. Deng Shaohong. Mr. Ye is deemed to be interested in all the Domestic Shares held by Guangdong Haide under the SFO.

8. As at the Latest Practicable Date, based on publicly available information, Dongguan City Jianhua Paper Co., Ltd.* had over 100 shareholders, with Li Haoqiu (黎浩秋) as the largest shareholder, holding approximately 12.93% of its equity interest and the equity interest of all its other shareholders being less than 3%.

9. As at the Latest Practicable Date, Dongguan City Fengjing Group Co., Ltd.* was owned as to 66% by Li Minli (李民立) and 34% by Liu Bosheng (劉博生).

10. As at the Latest Practicable Date, the remaining shareholders of Dongguan Dalang Dongying County Bank and their respective equity interests were as follows: 9% by Dongguan City Yanyu Shiye Investment Co., Ltd.* (東莞市雁裕實業投資有限公司), 5% by Guangzhou Yongwei International Trade Co., Ltd.* (廣州永威國際貿易有限公司), 4.9% by Dongguan City Xingye Knitting Co., Ltd.* (東莞市興業針織有限公司), 4.9% by Dongguan City Royal Garden Hotel Co., Ltd.* (東莞市帝豪花園酒店有限公司), 4.5% by Dongguan City Jianqi Industrial Investment Co., Ltd.* (東莞市建齊實業投資有限公司), 4.5% by Zheng Yaonan (鄭耀南), 4.5% by Deng Yunnan (鄧運南), 4.5% by Zhang Hongxin (張洪新), 4.5% by Liu Suling (劉素玲) and 18.7% in aggregate by eight other shareholders whose individual equity interest is less than 4%.

    Although our Bank held only 35% of the equity interest of Dongguan Dalang Dongying County Bank, the financial results of Dongguan Dalang Dongying County Bank were consolidated into the financial statements of our Group in accordance with the applicable accounting standard as our Bank effectively control Dongguan Dalang Dongying County Bank through controlling 51% of its voting rights in aggregate as at the Latest Practicable Date through acting in concert agreement entered into with Dongguan City Xingye Knitting Co., Ltd.*, Dongguan City Royal Garden Hotel Co., Ltd.* and two other shareholders whose individual equity interest is less than 4%.

11. As at the Latest Practicable Date, the remaining shareholders of Hezhou Babu Dongying County Bank and their respective equity interests were as follows: 7.5% by Guangxi Small and Medium Enterprise Venture Capital Investment Co., Ltd.* (廣西中小企業創業投資有限公司), 6.13% by Dongguan City Huangcheng Development Co., Ltd.* (東莞市篁城開發有限公司), 6.13% by Guangdong Dingfeng Real Estate Group Co., Ltd.* (廣東鼎峰地產集團有限公司), 6.13% by Canvest Environmental Protection Investment Limited (廣東粵豐環保投資有限公司), 5% by Hezhou City Xinhuafa Powder Co., Ltd.* (賀州市新華發粉體有限公司), 5% by Guangxi Hezhou City Huili Design and Decoration Project Co., Ltd.* (廣西賀州市匯麗設計裝飾工程有限公司), 5% by Guangxi Hezhou City Zhengfeng Modern Agriculture Co., Ltd.* (廣西賀州市正豐現代農業股份有限公司) and 8.13% in aggregate by three other shareholders whose individual equity interest is less than 5%.

12. As at the Latest Practicable Date, the remaining shareholders of Huizhou Zhongkai Dongying County Bank and their respective equity interests were as follows: 10% by Huidong County Lijing Garden Environment Design Co., Ltd.* (惠東縣麗景園林環境藝術有限公司), 7.33% by Huizhou City Zhongkai Jinbao Industry Development Co., Ltd.* (惠州市仲愷金寶實業發展有限公司), 6.67% by Huizhou City Ruifeng Properties Co., Ltd.* (惠州市瑞峰置業有限公司), 5% by Huidong County Hengli Industry Co., Ltd.* (惠東縣恒利實業有限公司), 5% by Shenzhen City Tiange Investment Co., Ltd.* (深圳市天格投資有限公司), 5% by Huizhou City Taidong Industry Investment Co., Ltd.* (惠州市太東實業投資有限公司), 5% by Virtue Group Co., Ltd.* (富紳集團有限公司) and 5% in aggregate by three other shareholders whose individual equity interest is less than 5%.

13. As at the Latest Practicable Date, the remaining shareholders of Yunfu Xinxing Dongying County Bank and their respective equity interests were as follows: 9% by Wens Foodstuff Group Co., Ltd.* (溫氏食品集團股份有限公司), 8% by Xinxing County Hunter Valley

Precision Casting Co., Ltd.* (新興縣獵人谷精密鑄造有限公司), 8% by Dongguan City Xingye Knitting Co., Ltd.* (東莞市興業針織有限公司), 8% by Dongguan Nanfang Foodgrain & Cooking Oil Co., Ltd.* (東莞市南方糧油有限公司), 8% by Guangdong Xiangshun Real Estate Development Co., Ltd.* (廣東翔順房地產開發有限公司) and 8% by Dongguan City Lakeside Garden Co., Ltd.* (東莞市碧湖花園有限公司).

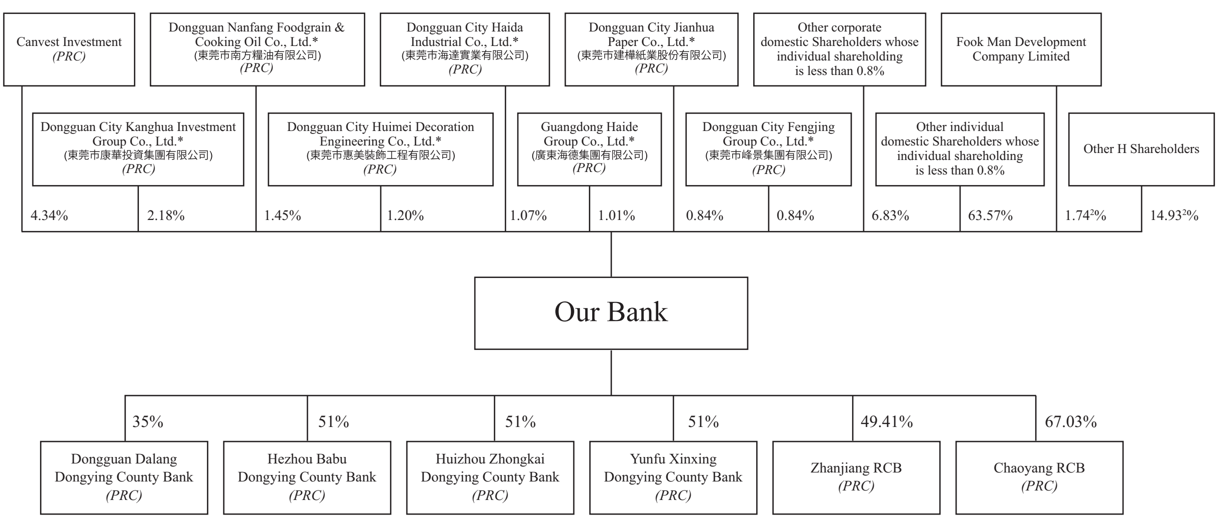
14. As at the Latest Practicable Date, the remaining shareholders of Zhanjiang RCB and their respective equity interests were as follows: 13.05% by Zhanjiang City Infrastructure Construction Investment Group Co., Ltd.* (湛江市基礎設施建設投資集團有限公司), 9.97% by Dongguan City Garwin Group Co., Ltd.* (東莞市嘉宏集團有限公司), 1.99% by Ma Weiqiang (馬偉強) and 25.58% in aggregate by 6,226 other shareholders whose individual equity interest is less than 1%.

    Although our Bank held only 49.41% of the equity interest of Zhanjiang RCB, the financial results of Zhanjiang RCB were consolidated into the financial statements of our Group in accordance with IFRS 10 as our Bank is its largest shareholder and the shareholdings of the remaining shareholders are fragmented.

15. As at the Latest Practicable Date, the remaining shareholders of Chaoyang RCB and their respective equity interests were as follows: 4.78% by Shantou City Nanxin Investment Co., Ltd.* (汕頭市南信投資有限公司), 2.12% by Shantou City Fule Real Estate Co., Ltd.* (汕頭市富樂房地產有限公司), 2.11% by Shantou City Jinliu Trading Co., Ltd.* (汕頭市金流貿易有限公司) and 23.96% in aggregate by 2,809 other shareholders whose individual equity interest is less than 1%.

### *Immediately after the Global Offering*

The chart below sets forth the shareholding and corporate structure of our Group immediately after the Global Offering (without taking into account of any H Shares which may be issued upon the exercise of the Over-allotment Option):

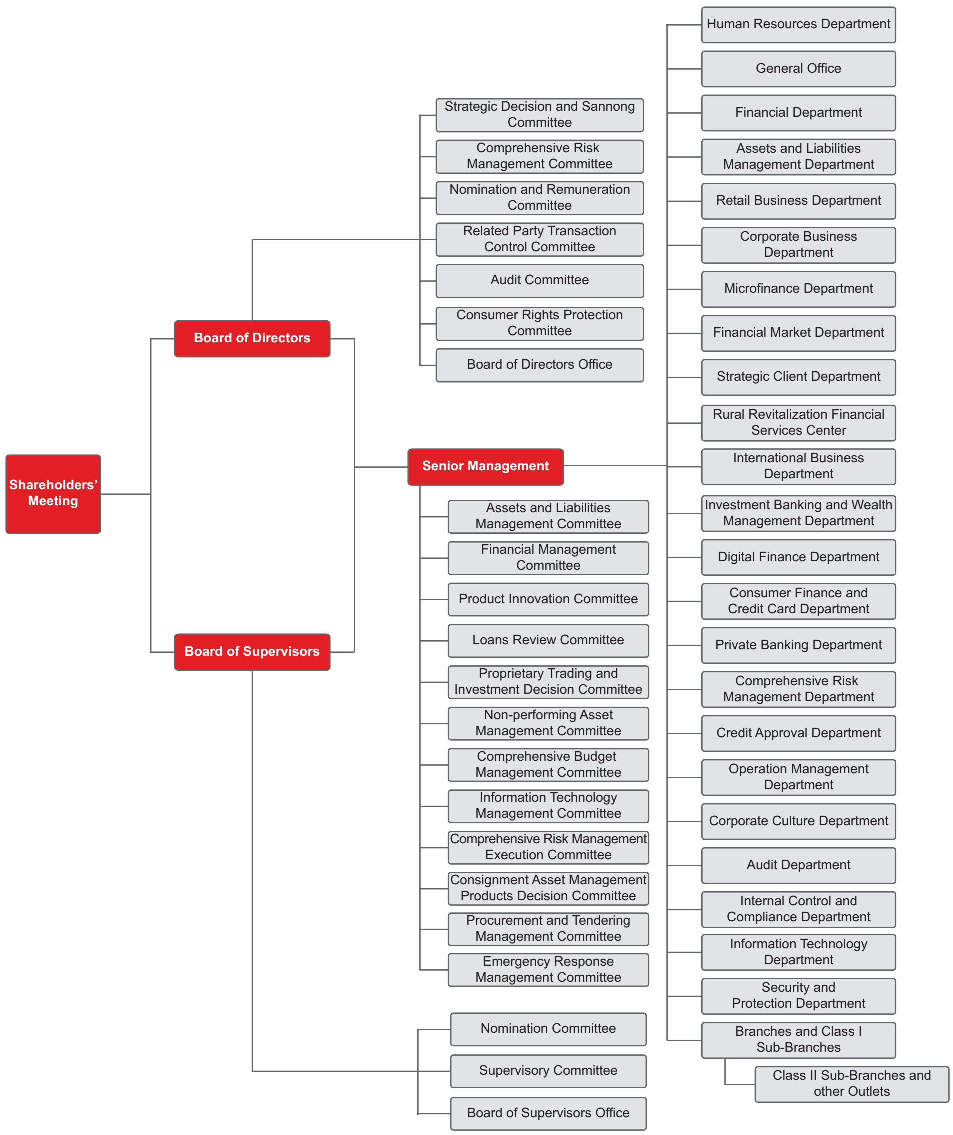



*Note:*

1. *For identities and information of the ultimate shareholders of our Shareholders and the minority shareholders of the subsidiaries of our Bank, please see the notes to the chart under "History, Development and Corporate Structure — Shareholding Structure Chart — Immediately before the Global Offering" above in this section.*
2. *The percentage herein is calculated assuming the Offer Price has been determined at the mid-point of the indicative Offer Price range, being HK$8.32 per Offer Share as Fook Man Development Company Limited is our cornerstone investor who has agreed to subscribe for the Offer Shares for a prescribed monetary sum (rather than a prescribed number of Offer Shares). For details, please see "Cornerstone Investor".*

## CORPORATE GOVERNANCE STRUCTURE

The corporate governance structure of our Bank comprises the Shareholders' meeting, the Board of Directors, the Board of Supervisors and the senior management. The chart below sets forth the major organizational and management structure of our Bank as at the Latest Practicable Date:




### Shareholders' Meeting

The Shareholders' meeting is the authoritative organization within our Bank and its rights and responsibilities include, among other things, deciding the operational direction and investment plan of our Bank, considering and approving the reports of the Board of Directors and the Board of Supervisors and the budget and final financial accounts of our Bank and electing our Directors and Supervisors (other than employee representative Supervisors).

**Board of Directors**

Our Board of Directors reports to the Shareholders' meeting and is responsible for the operation and management of our Group. Its major responsibilities include, among other things, executing the resolutions of the Shareholders, determining the operation and development strategies of our Group, formulating our budget, appointing our president and other senior management, considering matters that have material impact on our daily management and operation and supervising our senior management.

To facilitate our Board of Directors to discharge its functions, our Board of Directors established various committees and is supported by the Board of Directors Office. For details of the committees under the Board of Directors, please see "Directors, Supervisors and Senior Management — Committees under the Board of Directors".

**Board of Supervisors**

Our Board of Supervisors supervises our Board of Directors and senior management as well as our financial performances, internal control and risk management.

To facilitate our Board of Supervisors to discharge its functions, our Board of Supervisors established a nomination committee and a supervising committee and is supported by the Board of Supervisors' office. For details of the committees under the Board of Supervisors, please see "Directors, Supervisors and Senior Management — Committees under the Board of Supervisors" in this prospectus.

**Senior Management**

Our senior management is led by our president and manages our daily operation. Our president reports to our Board of Directors and is in charge of executing the resolutions of our Board of Directors and the operational management of our Bank.

## OVERVIEW

We are the fifth largest rural commercial bank[1] in China in terms of total assets as of December 31, 2020, according to the "Top 100 Banks in China in 2021" released by China Banking Association in 2021[2]. According to the British journal "The Banker" published in July 2021, we ranked the 261st among commercial banks globally, the 44th among commercial banks in the PRC and the sixth among the rural commercial banks in the PRC in terms of tier-one capital as of December 31, 2020.

We are the leading commercial bank in Dongguan. Our Bank has ranked the first among banking institutions in Dongguan each year since 2005 in terms of year-end balance of RMB-denominated deposits and loans, according to PBoC Dongguan Center Branch. As of March 31, 2021, RMB-denominated deposits and loans of our Bank accounted for approximately 18.78% and 18.63% of the balances of RMB-denominated deposits and loans of all the banking institutions in Dongguan as of the same date, respectively, according to the same source.

We provide tailor-made financial products and services through our extensive distribution network in Dongguan. According to CBIRC Dongguan Office, we have the largest number of outlets among commercial banks in Dongguan. As of the Latest Practicable Date, 501 out of the total 505 outlets of our Bank were located in Dongguan that cover all administrative districts. Such broad network coverage extends customer reach and deepens penetration into the local market. As of the Latest Practicable Date, we also had four branches outside Dongguan, located in Guangzhou, Zhuhai, Huizhou and Qingyuan in Guangdong Province, respectively. In addition, we have jointly-established four county banks with third parties, which are located in Dongguan, Huizhou and Yunfu in Guangdong Province and Hezhou in Guangxi Zhuang Autonomous Region. We also jointly-established two rural commercial banks in Zhanjiang and Shantou in Guangdong Province.

Leveraging our in-depth knowledge of the local economy, based on changes and development focuses of local economic and industrial policies, we proactively manage our operations and promptly respond to financial needs of our core local customers, including modern Sannong (三農) customers, modern manufacturing "three chains" customers, SMEs customers and other private enterprises. Strategically we focus on strengthening our five financial brands, namely, "Retail Finance" that provides all-round financial services to retail customers, "Industrial Finance" that emphasizes serving key industries in Dongguan, "SME Finance" that provides comprehensive financial services to SMEs, "Inter-bank Finance" that integrates cross-market services and "Digital Finance" that aims to capture the digital trend to develop our online business, which we believe enable us to procure quality customers through a market-focused approach and by providing comprehensive financial services, and therefore enhance our overall competitiveness.

We are committed to business prudence and sustainable development. Supported by our comprehensive risk management system, we achieved considerable growth in asset size while maintaining our asset quality. Our total assets increased from RMB407,904.7 million as of December 31, 2018 to RMB548,402.0 million as of December 31, 2020, representing a CAGR of 16.0%. As of March 31, 2021, our total assets has further

[1] Rural commercial bank is a type of rural financial institutions which originated from rural credit cooperatives, pursuant to the Notice on Deepening the Pilot Program of Rural Credit Cooperatives Reform (《關於深化農村信用社改革試點方案的通知》) (Guo Fa [2003] No.15) issued by the State Council.

[2] Not including commercial banks of which annual reports or effective audited annual reports were not available at the issuance of the rankings in July 2021.

increased to RMB564,558.2 million. As of December 31, 2018, 2019 and 2020, our NPL ratio was 1.27%, 1.00% and 0.82%, respectively, lower than the arithmetic mean of NPL ratios of PRC regional banks (including city commercial banks and rural commercial banks) that were listed in Hong Kong as of the date of this prospectus, which was 1.86%, 2.04% and 1.90% as of the same dates, respectively, based on data extracted from the published annual reports of such PRC regional banks. Our NPL ratio further decreased to 0.79% as of March 31, 2021.

In addition, we maintained strong profitability and operational efficiency during the Track Record Period. Our operating income increased from RMB9,777.6 million for the year ended December 31, 2018 to RMB12,047.0 million for the year ended December 31, 2020, representing a CAGR of 11.0%. For the three months ended March 31, 2020 and 2021, our operating income amounted to RMB3,173.1 million and RMB3,156.0 million respectively. Our net interest margin increased from 2.05% for the year ended December 31, 2018 to approximately 2.16% for the year ended December 31, 2020 and our net interest spread increased from approximately 1.98% for the year ended December 31, 2018 to approximately 2.10% for the year ended December 31, 2020. For the three months ended March 31, 2021, our net interest margin and net interest spread was 1.98% and 1.91%, respectively. For the year ended December 31, 2020, our return on average assets was 1.00% and return on average equity was 13.64%, higher than the arithmetic mean of the returns on average assets and returns on average equity of PRC regional banks (including city commercial banks and rural commercial banks) that were listed in Hong Kong as of the date of this prospectus, which was approximately 0.52% and 6.91% for the same year, respectively, based on data extracted from the published annual reports of such PRC regional banks. For the three months ended March 31, 2021, our return on average assets was 1.26% and return on average equity was 16.71%. Our Bank was among the first group of rural credit cooperatives association approved by PBoC to participate in the inter-bank financing market in China. According to CCICR our corporate credit rating has remained at AAA, the highest credit rating of corporates in China since October 2017.

## OUR COMPETITIVE STRENGTHS

We benefited from China's financial reforms in the rural areas. We have been in operation for more than 69 years as our history can be traced back to 1952, when one of our predecessors was established as the first rural cooperative organization in Dongguan. We have grown and prospered together with Dongguan's economy. We have established our competitive strengths through our long operational history and commitment to reform and transformation.

### The Fifth Largest Rural Commercial Bank in China with Distinctive Geographic Advantage in the Greater Bay Area

According to the "Top 100 Banks in China in 2021" released by China Banking Association in 2021, we are the fifth largest rural commercial bank in China in terms of total assets as of December 31, 2020. As of March 31, 2021, we had total assets of RMB564,558.2 million, deposit balance of RMB389,641.3 million and loan balance (excluding accrued interest and provision for expected credit losses) of RMB275,750.6 million. We recorded operating income of RMB12,047.0 million, RMB3,173.1 million and RMB3,156.0 million, operating profit of RMB5,347.8 million, RMB1,727.6 million and RMB1,984.4 million as well as net profit of RMB5,055.3 million, RMB1,527.5 million and RMB1,759.2 million for the year ended December 31, 2020 and for the three months ended March 31, 2020 and 2021.

Benefited from China's economic reform and opening up policy, Dongguan has become a world-renowned manufacturing hub. Dongguan has a booming economy, comprehensive industry infrastructure, fast-growing high-tech and advanced manufacturing industries, evidenced by one national industrial cluster and 11 provincial industrial clusters. In particular, Dongguan has an advanced industrial chain of smart phone production. According to the Statistical Report on the Civil Economy and Social Development in Dongguan in 2020 (2020年東莞市國民經濟和社會發展統計公報) released by Statistics Bureau of Dongguan, the GDP of Dongguan in 2020 was RMB965.0 billion, representing an increase of 1.1% from 2019. The production output of advanced manufacturers and high-tech manufacturing industry contributed 50.9% and 37.9% of the increase in large-scale manufacturing industry in Dongguan, respectively. The strong economical growth provided a favorable environment for the development of the financial industry.

We strive to fully leverage our advantage as a local bank in Dongguan. Our operations are market-oriented and we are committed to the business philosophy that "Customers are our greatest assets (客戶是我們最大的財富)". We streamlined our decision-making chain to quickly respond to customer needs in an effort to maintain our leading market share in the local market. We have in-depth local knowledge as we maintain close contact with local companies and the Village Groups in Dongguan. As of the Latest Practicable Date, our Bank had 501 outlets that cover all administrative areas in Dongguan, which grant us deep local penetration and extensive customer reach. As of March 31, 2021, our bank had approximately 19.1 million retail banking customers and 407,500 corporate banking customers. According to PBoC Dongguan Center Branch, as of December 31, 2018, 2019 and 2020 and March 31, 2021, we maintained the largest market share in Dongguan in terms of the balances of deposits and loans. Simultaneously, we steadily implemented cross-regional expansion and have set up branches in the cities of Guangzhou, Zhuhai, Huizhou and Qingyuan, and established early presence in these important cities in the Greater Bay Area.

Dongguan faces historical growth opportunities arising mainly from three major government initiatives, namely, to develop the Greater Bay Area, to implement socialism with Chinese characteristics in Shenzhen as a pilot area, and to promote supply-side structural reform of the manufacturing industry in Dongguan as an innovation incubating zone. Dongguan is located in the geometric center of the Greater Bay Area, with a well-developed transportation network, and it is within one-hour's travel time to Guangzhou, Shenzhen and Hong Kong. The full industry chain in the region is expected to help Dongguan become a key node city in the Greater Bay Area and bring new strategic opportunities for our development.

**A Solid Foundation for Our Growth Provided by the Prospering Local Modern Sannong（三農） Businesses**

Dongguan has evolved into an industrial center from a rural area and the urbanization rate of Dongguan is high. The modem Sannong businesses in Dongguan are prosperous and in line with the urbanization process of Dongguan.

As a commercial bank that commenced its operation in the rural area, we have been focusing on the rural banking market and have maintained a leading position in servicing the Village Groups in Dongguan. We believe that the Village Groups and their residents are important customer bases of our deposits and loans businesses. As of March 31, 2021, our Bank had 3,988 Village Group accounts, which are held by relevant Village Groups, being organizations such as share cooperative, economic cooperative, economic union, joint stock economic union, professional cooperative, village committee and resident committee. As of December 31, 2018, 2019 and 2020 and March 31, 2021, the total deposits of the Village Groups were RMB35.4 billion, RMB40.9 billion, RMB52.1 billion and RMB47.6 billion, respectively, representing 32.8%, 33.5%, 37.2% and 32.5% of the total corporate deposits of our Bank as of the same dates. The total deposits includes principal-guaranteed wealth management products of RMB5,825.0 million, RMB2,799.7 million, RMB401.1 million and RMB228.0 million, respectively, as of the same dates, which are categorized as deposits of our Bank pursuant to the relevant regulatory requirements. Due to the sound financial position of the Village Groups, dividends received by the residents also contributed to the increase of our deposit balance. As of March 31, 2021, our Bank had approximately 285,852 accounts held by the Village Group residents for dividend deposit, which are used by Village Groups to distribute the dividends to their Village Group residents. The total dividends and other distribution handled through such accounts by our Bank were over approximately RMB7,535.6 million, RMB8,300.7 million, RMB13,533.9 million and RMB8,284.3 million in 2018, 2019, 2020 and for the three months ended March 31, 2021, respectively, representing an increase in land demolition compensation and Village Group dividends resulted from urban renewal project in Dongguan during recent years.

Modern Sannong businesses in Dongguan are well-developed and provide quality customer base for our loan business. Leveraging our in-depth knowledge of rural financial market, our Bank provides a wide variety of corporate and retail banking products and services to Sannong businesses and owners in order to expand Sannong-related operations. Such products and services help us grow both our loans and deposits businesses, which include "The Greater Bay Area Upgrade Loan"(灣區升級貸) for properties renovation by the Village Groups, in response to the Dongguan government's promotion for the upgrade of rural industrial parks; "Easy Village Payment" (村繳易) for rent collection by the Village Groups; "Rural Industrial Zone Loan" (農業園區貸), "Rural Leader Loan" (農業龍頭貸) and "Rural Market Loan" (農貿市場貸) to support the agricultural products processing and wholesale businesses, in response to the Dongguan government's initiatives to develop modern agriculture industries; and various credit loan products for consumption demand of the Village Group residents to improve their quality of living. As of December 31, 2018, 2019 and 2020 and March 31, 2021, our agriculture-related loans was approximately RMB18,396.5 million, RMB24,800.5 million, RMB28,829.6 million and RMB32,275.4 million, respectively, as measured by regulatory standards, representing approximately 11.4%, 13.0%, 12.0% and 12.8% of our total loans and advances to customers as of the same dates.

We believe that our large Sannong customer base, diversified financial products and services for Sannong customers, and prudent credit risk management of our modern Sannong related operations give us distinctive competitive advantages.

**Comprehensive Retail Banking Services and Steadily Growing Retail Banking Business**

As a major city in Guangdong Province, according to the Seventh National Population Census Report of Guangdong Province (《廣東省第七次全國人口普查公報》) as of November 1, 2020, Dongguan had approximately 10.5 million permanent residents. According to the Research Report on the Vitality of Chinese Cities for 2020 (《2020年度中國城市活力研究報告》), Dongguan's population appeal index ranked the third in the PRC, which laid a solid foundation for our retail banking business. According to the 2020 Hurun Wealth Report (《2020年胡潤財富報告》) issued by the Hurun Research Institute, Dongguan has approximately 58,700 "affluent families" with over RMB6 million of assets, and approximately 25,000 "high net worth families" with over RMB10 million of assets. Such families have significant demand for wealth management.

The rapid growth of our retail banking business is driven by our customized products, customer-oriented services and extensive outlet network. As of December 31, 2018, 2019 and 2020 and March 31, 2021, the balance of our individual deposits from retail banking customers was RMB151,447.0 million, RMB180,410.0 million, RMB221,391.8 million and RMB227,079.8 million, respectively. The balance of our personal loans to retail banking customers maintained satisfactory growth to RMB49,541.7 million, RMB80,048.3 million, RMB98,015.9 million and RMB105,073.8 million, respectively. According to the PBoC Dongguan Center Branch, as of March 31, 2021, our RMB-denominated deposit and loan balances accounted for 18.78% and 18.63% of total deposit and loan balances in Dongguan, respectively. For the years ended December 31, 2018, 2019 and 2020 and for the three months ended March 31, 2020 and 2021, operating income from our retail banking business was RMB4,012.8 million, RMB4,523.9 million, RMB5,286.1 million, RMB1,281.4 million and RMB1,287.2 million, respectively. As of March 31, 2021, our assets under management of retail customers amounted to RMB222,231.8 million, representing an increase of RMB16,764.2 million from the same period in the previous year.

*A large proportion of low-cost deposits.* We have formulated a strategy of treating deposits as the foundation of our operations and strive to increase our deposits. During the Track Record Period, we continued to increase the year-end balances of both our demand deposits and time deposits with a term of one year or less, which had relatively low interest expense. As of December 31, 2018, 2019 and 2020 and March 31, 2021, the balance of our individual demand deposits from retail banking customers was RMB79,817.1 million, RMB91,456.5 million, RMB102,798.2 million and RMB101,253.8 million, respectively and accounting for 30.1%, 29.1%, 27.2% and 26.0% of the total deposits from customers as of the same dates, which provided us a stable source of low-cost fund.

*Efficient operation through all channels.* We continuously improve our marketing channels with efficient network management. The marketing function of our Bank is structured as a network with its members in different positions responsible for specified tasks. We have built a specialized marketing team who work to improve our market share and business coverage. We have also established online channels, such as internet banking, mobile banking, WeChat banking and D+Bank App to improve customers' traffic and loyalty.

*Upgraded customer services.* We promote standardized customer services at our outlets. Two of our outlets were awarded "Top 1000 Banking Outlets (中國銀行業千佳網點)" and 11 of our outlets were awarded "Exemplary Outlet with Standardized and Courteous Service (中國銀行業文明規範服務星級網點)" as of the Latest Practicable Date. In 2015, we launched our private banking business to improve our high-end services to high-net worth customers.

**A New Model of Industrial Finance Business that Covers Upstream and Downstream Industry Chain**

As an international manufacturing base, Dongguan has established a relatively complete manufacturing eco-system, with distinctive industrial clusters. We have introduced a new industrial financing system to enhance our competitiveness in the financial market. Since 2017, we identified ten key industries including education, environmental protection, medical and pharmaceutical, intelligent city, industrial park, high-end manufacturing, new generation information technology, mould, furniture and food industries, and designed and offered seven tailor-made comprehensive financial service plans for these industries, namely, "Green Financing (綠融通)", "Campus Financing (校融通)", "Bank-Hospital Financing (銀醫通)", "Smart Financing (智融通)", "Park Financing (園融通)", "Bay Area Financing (灣融通)" and "City Financing (城新通)".

We adopt a new "1+3+N" grid-based marketing model for our industrial finance business. Such model starts with core enterprises, projects or platforms in the industry as a step-one and expands the coverage of our financial services to "three chains", namely the industrial chain, supply chain and value chain, and numerous SMEs and retail banking customers related to such chains, in order to quickly and efficiently extend customer reach, procure new customers, and upgrade grid-based service management that achieve seamless services, full management coverage and prompt response to our customer needs with well-rounded management and services. We have established a platform for online industry financial services and launched services such as smart data, supply chain financing and smart risk control, improving our industry financial services.

As of December 31, 2018, 2019 and 2020 and March 31, 2021, the total number of customers of our Bank in the ten key industries were approximately 116,900, 122,900, 125,800 and 126,400, respectively. As of the same dates, the balance of our corporate loans to enterprises in the ten key industries were approximately RMB24,951.7 million, RMB29,686.4 million, RMB42,536.9 million and RMB47,519.1 million, respectively, representing 26.1%, 27.6%, 31.1% and 32.8% of our total corporate loans as of the same dates, respectively.

**A New Model of SME Finance Business that Increases Market Share in Emerging Financial Market**

The private sector in Dongguan is sizable and plays a significant role in local economy. A large number of SMEs in Dongguan generated strong demand for financial services. We adopted the strategy of "Full Services for All SMEs (全面經營所有小微企業，全面經營小微企業的所有業務)" and systematically developed an "online + offline" dual development model for our SME financial products. As of December 31, 2018, 2019 and 2020 and March 31, 2021, the balance of our loans to SMEs was approximately RMB62,969.9 million, RMB68,097.9 million, RMB82,515.2 million and RMB89,767.9 million, respectively, representing approximately 65.9%, 63.3%, 60.4% and 62.0% of our total corporate loan balance as of the same dates.

We actively explore new services for SMEs by providing tailor-made and diversified financial products, including:

- attracting deposits as low-cost funding through tailor-made settlement products for SMEs: we introduced tailor-made settlement products such as SME all-purpose debit cards and electronic business license cards. As of December 31, 2018, 2019 and 2020, the total number of such cards issued was approximately 52,600, 84,400 and 105,200, respectively, representing a CAGR of approximately 41.4% from December 31, 2018 to December 31, 2020. Such cards generated settlement deposit amount of approximately RMB4,354.5 million, RMB11,552.2 million and RMB15,158.3 million as of the same dates, respectively, representing a CAGR of approximately 86.5% from December 31, 2018 to December 31, 2020. As of March 31, 2021, the total number of such cards issued and the generated settlement deposit amount for the relevant period was approximately 109,400 and RMB4,859.2 million, respectively.

- rapidly expanding our SME customer base through the introduction of distinctive SME credit products: We introduced various special finance products, including "Government Procurement Loan（政採貸）", "Financial Relief Loan（紓困貸）", "Industry Supportive Loan（穩業貸）", to meet different financial needs of SMEs. We enhanced our cooperation with the PBoC, local financial regulatory authorities and local governments. We also expanded our customer base by introducing "Venture Capital Loan（創業貸）", "Public-private Project Banking （政商銀）" and "Government Project Loan（政銀保）". As of December 31, 2018, 2019 and 2020 and March 31, 2021, the NPL ratio of inclusive SME loans of our

Bank were 1.26%, 0.61%, 0.70% and 0.86%, respectively, demonstrating our ability to strike a balance between operational scale and asset quality.

The Bank accelerated the research and development and production of the small and micro online products. Through continuous enrichment of the offerings of online products and relying on big data intelligent risk control models, the Bank gradually realized the online application, approval, and releasing of small and micro loans. The channels for online customer acquisition and the online customer base were expanded to effectively support the growth of small and micro online loans. The Bank had officially launched small and micro online loan products since 2019, including Tax Financing Loan. As of December 31, 2019 and 2020, the small and micro online loan balances of the Bank were RMB3,854.1 million and RMB5,720.5 million respectively, with an average CAGR of approximately 48.4%. As of March 31, 2021, the small and micro online loan balances of the Bank has amounted to RMB6,571.4 million.

Through our systematic development, we improved the efficiency of our offline services to SMEs. We set up Micro Finance Units in 13 branches and developed a direct approval process for SME loan applications. We have also appointed regional customer relationship managers and bank representatives for SME customers to improve our approval process. We were awarded "Exemplary Bank in SME Financial Services (優秀小微金融服務銀行)" in 2019 at the National Finance Technology Summit.

**Widely Adopting Intelligent Information Technologies and Implementation of Advanced Operation System for Efficiency Improvement**

We believe financial technologies will be the pinnacle of future banking competition. In order to develop into a "smart digitalized bank", we continued to upgrade IT infrastructure, promote IT structure transformation, and focus on the development in key areas including mobile finance, big data, cloud computing and AI to fully promote intelligent information technology upgrades. For the years ended December 31, 2018, 2019 and 2020 and for the three months ended March 31, 2021, our IT expenses were approximately RMB157.5 million, RMB362.9 million, RMB404.9 million and RMB195.3 million, respectively.

To promote business development, we established a financial technology laboratory in May 2019 to introduce diversity into our services and products as well as enhance our digital infrastructure, so as to improve the user experience of our customers. At the same time, we entered into series of service and cooperation agreements with technology companies to provide smart financial services in different scenarios. We have introduced self-serviced online loan products such as D Quick Loan (D快貸), which enables individuals to apply for consumption and business loans through our online channel or other Internet channels recognized by us and is operated with big data relating to risk management, and provide financial services in cooperation with other financial institutions. We conduct our online banking business in accordance with the relevant laws and regulations, which do not require us to hold any specialized license to provide online loan services. As of March 31, 2021, the balance of our online loans, being loans extended through online application, was approximately RMB23,480.6 million, of which jointly granted loans, being loans extended on a joint basis with other financial institutions, were approximately RMB7,408.8 million and online loans, being loans extended solely by us and mainly through our self-operated channels (such as our official website or official mobile Apps) and other channels, were approximately RMB16,071.7 million.

To improve management, we applied financial technology to improve operational system efficiency, which effectively improved our operation efficiency and strengthened our cost control. The introduction of virtual teller machines promoted our intelligent business operation system and further reduced the demand for counter staff.

**Comprehensive Risk Management System and High-quality Credit Assets**

We are committed to the operating philosophy of growth out of stability. We emphasize complementary and coordinated development of steady growth and robust risk control. We implemented rule-based management. We effectively prevented and resolved various risks by continuously improving our comprehensive risk management system based on rules, technologies and culture, in order to meet and exceed risk-related regulatory requirements.

*We implemented comprehensive risk management and control.* Our management established "three lines of defense" risk management, namely, the business department, the risk management department and the internal audit department, to carry out detailed management of credit risk, market risk, liquidity risk, operational risk, legal compliance risk, information technology risk and reputational risk. We established a risk control assessment mechanism covering our headquarters and branches to strengthen the weakness in internal risk control management. We maintain the quality of our assets through prudent risk management. As of December 31, 2018, 2019 and 2020 and March 31, 2021, our loans to customers with collateral, pledge and/or guarantee were approximately RMB150,925.1 million, RMB177,615.7 million, RMB228,191.3 million and RMB241,619.7 million, respectively, representing approximately 91.8%, 86.3%, 87.3% and 87.6% of our total loans. During the Track Record Period, we did not grant any loan to government financing platform. As of December 31, 2018, 2019 and 2020 and March 31, 2021, the NPL ratio of our loans to customers continued to decrease, and was 1.27%, 1.00%, 0.82% and 0.79%, respectively, representing an increase of performing loan. As of the same dates, our provision average ratio remained relatively high, and was 345.74%, 389.57%, 375.13% and 376.90%, respectively, which exceeds the regulator indicator of not less than 150%, representing an increasing risk control capacity.

*We adopted risk control technologies in the whole risk management process.* We strive to use financial technologies to achieve intelligent management and control of key business risks. We launched a series of management systems, including a comprehensive online risk management system to strengthen centralized risk management, a new online credit service system, an internal ranking system, a risk data collection and credit risk warning system and cloud-based platform to prevent and control credit risks at an earlier stage, and an online audit surveillance system to improve the informatization of internal audit.

*We maintain a risk control culture with participation of all employees.* In accordance with the principle of "integrating culture into system with participation of employees", we have established a prudent risk culture in a top-down manner. We emphasize rule-based management and implemented rules for various operational departments, management processes and responsibility roles. We require all staff, from management to frontline employees, to proactively comply with all rules and impose strict enforcement accountability on those in violation to foster a good compliance culture.

**Long-term Steady Shareholder Support and Cohesive Modern Financial Enterprise Culture**

Our Shareholders include a number of enterprises and entrepreneurs well-known in Dongguan, which operate in various industries including environmental protection, medical healthcare, modern Sannong, sports, industrial investment and commercial real estate industries. Our shareholders support our prudent operation and strategic transformation and assist us in our business expansion and risk control.

Our Board of Directors has an in-depth understanding of economic development trends and capital management. Mr. Lai Chun Tung, Mr. Wang Junyang and Mr. Yip Tai Him are also directors of listed companies in Hong Kong and other jurisdictions and have brought advanced governance experiences to help our sustainable development. Our senior management members have extensive industry experience, strong leadership and vision, and have on average over 27 years of experience in the financial industry in China, among those one has a doctoral degree, one has master's degree and two have bachelor's degree. Mr. Wang Yaoqiu (王耀球先生), our Chairman of our Board of Directors, has over 32 years of experience in the banking industry, and previously served as the vice president of Dongguan Branch of Bank of China Limited and president of Dongguan Branch and Guangzhou Branch of China Merchants Bank. He has profound understanding of regional economic development and strategic transformation of banking industry, outstanding leadership, and vision. Mr. Fu Qiang (傅強), our President, has over 30 years of banking-related experience. He has extensive experience in, and in-depth understanding of the financial industry regulation in Guangdong Province.

We focus on our employees in human resources management and carry out market-oriented talent selection. We place great importance in employees' career development in order to attract and retain outstanding talents and maintain the stability of our teams. As of March 31, 2021, we had a total of 5,656 employees, approximately 85.4% of which had bachelor's degree or above and approximately 56.1% of which were sales representatives. Our annual employee turnover rate has remained below 5% during the Track Record Period.

## OUR BUSINESS STRATEGIES

Our strategic objective is to develop into a regional modern rural commercial banking group.

We are committed to the business philosophy that "Customers are our biggest assets (客戶是我們最大的財富)". Leveraging technology, talents and capital strength, we are committed to digitalized and conglomerated operations, establishing our core competitive edge based on our core customers, core businesses, risk management and organizational management, and constructing a grid and scenario-based system, a system that focuses on market share and rates of return, as well as compliance and risk management, and a system that builds corporate culture through incentives and rules.

We plan to adopt the following strategic initiatives in business development:

### Capitalize on modern Sannong business development to grow the market share of our rural financial business

With the growth of rural economy and the synergy created by the development of the Greater Bay Area, the modern Sannong business in Dongguan is expected to go through further reform and upgrade, which in turn could lead to growing financial demand. We will solidify customer relationship with key Village Groups and qualified Village Groups residents, grow our customer base and market share in the Village Group market, and further develop emerging sectors such as township and village livelihood industry, rural infrastructure, agricultural product processing and distribution and agricultural technology, creating a brand of modern Sannong services.

**Build a leading core business system and continuously improve competitiveness**

We will continue to expand the scale of our core business, optimize our business structure, and promote a sustainable development of our corporate banking, retail financial business, small and micro finance business, interbank financial business and digital financial business. We will strive to increase our market share and gradually enhance our profit margins. In addition, we will steadily promote the growth of the Group, improve the operation and management of our subsidiaries and enhance our profitability.

**Develop a new "1+3+N" grid management system and upgrade customer management system**

We believe that a grid management is highly compatible with the resources of local banks and is an efficient and sustainable business model. We will continue to improve our grid management. Based on grid management, we developed the "1+3+N" grid marketing system by using chain marketing, so as to streamline its customer management and enhance its market share and coverage.

In addition, we will build an open business ecosystem, which embeds financial services into the life and production scenarios of core customer groups, so as to enhance the value realization capabilities in various financial service scenarios, strengthen our customer procurement capabilities and increase our customer retention power.

**Accelerate financial technology application and introduce new initiatives for reform and development**

We believe in the era of financial technology. It is strategically important to adopt digital transformation.

Digitalization will profoundly change the operating philosophy, business model and management method of the financial industry. We plan to establish a compatible organizational structure, business processes, management mechanisms and corporate culture to create a smart digital bank.

We will continue to implement the strategy of "mobilization, digitization, smartization and openness". We will use financial technology as a starting point for our reform which will be based on cloud platforms, digital applications and digital technologies. In respect of business development, we will establish data-driven customer profile, and maximize customer return from traditional customer base by promoting scenario-based products and online channels. With respect to management empowerment, through the use of digital technologies and tools, we plan to realize a digitalization and standardization of mid- and back-end management, and establish a real-time and dynamic intelligent risk control system. With respect to fundamental support, we will make every effort to promote data management, strengthen the interconnection of internal and external data, promote the transformation of IT infrastructure and improve technological capabilities.

**Improve our comprehensive risk management system to ensure effective management and control of risks**

We will continue to implement the principle of governance with rules and strive to continuously improve our internal control system to formulate regulatory guidance to regulate our business behaviors, create a good compliance culture and enhance our compliance capabilities.

We seek to constantly upgrade our integrated risk management capability. We plan to utilize advanced risk management tools and information technologies in risk identification, assessment, quantification and control, in order to enhance the implementations of risk-adjusted return on capital. We plan to reinforce the supporting role of technologies in risk management, adopt new risk management methods and realize the full implementation of AI in the process. We plan to focus on improving our credit risk management system, strengthen the prevention and control of market risks, and optimize our internal audit and management model, in order to effectively prevent and resolve various risks.

**Improve human resources management and create modern financial enterprise culture**

We plan to continue to build up talents with industry expertise and strategic importance. At the same time, we seek to continuously improve the quality of our human resources management and enhance our incentive system, in order to provide employees with ample career development opportunities and establish an empowered modern banking system.

We regard corporate culture to be an enduring driving force of growth. In recent years, we strive to build a distinctive corporate culture and create a corporate environment in which we respect superiors, care for subordinates, treat people with sincerity and take work seriously. We will continue to fulfill our social responsibility by managing the Dongguan City Rural Commercial Bank Education Charity Foundation (東莞市農商銀行教育公益基金會), of which we set up and donated all initial fund, to support local education, and promoting the influence of our Dongguan Numismatic Museum (東莞市錢幣博物館) in the industry.

## OUR PRINCIPAL BUSINESSES

Our principal lines of businesses include corporate banking, retail banking and treasury business.

The following table sets forth a breakdown of the principal business lines and their operating income contributions during the Track Record Period.

| | For the years ended December 31, | | | | | | For the three months ended March 31, | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2018 | | 2019 | | 2020 | | 2020 | | 2021 | |
| | Amount | % of total | Amount | % of total | Amount | % of total | Amount | % of total | Amount | % of total |
| | *(in millions of RMB, except for percentages)* | | | | | | | | | |
| Corporate banking business | 4,046.2 | 41.4% | 4,671.8 | 39.6% | 5,501.0 | 45.7% | 1,380.0 | 43.5% | 1,560.0 | 49.4% |
| Retail banking business | 4,012.8 | 41.0% | 4,523.9 | 38.4% | 5,286.1 | 43.9% | 1,281.4 | 40.4% | 1,287.2 | 40.8% |
| Treasury business | 1,467.7 | 15.0% | 2,204.7 | 18.7% | 1,385.8 | 11.5% | 475.8 | 15.0% | 291.4 | 9.2% |
| Others[(1)] | 250.9 | 2.6% | 394.8 | 3.3% | (125.9) | (1.1)% | 35.9 | 1.1% | 17.4 | 0.6% |
| **Total** | **9,777.6** | **100.0%** | **11,795.2** | **100.0%** | **12,047.0** | **100.0%** | **3,173.1** | **100.0%** | **3,156.0** | **100.0%** |

*Note:*

(1) Consisted of income and expenses that are not directly attributable to any specific segment.

### Corporate Banking Business

#### *Overview*

The core customer groups of our corporate banking business include the Village Groups, modernized Sannong enterprises, SMEs, governmental entities, private enterprises and state-owned enterprises. To cater for the needs of a wide range of customers, we offer our customers a portfolio of diversified financial products and services, including corporate loans, corporate deposits, international settlement and trade finance, as well as other corporate banking products.

Corporate banking is one of our main sources of operating income and operating profit. For the years ended December 31, 2018, 2019 and 2020 and for the three months ended March 31, 2020 and 2021, operating income from our corporate banking business was RMB4,046.2 million, RMB4,671.8 million, RMB5,501.0 million, RMB1,380.0 million and RMB1,560.0 million, respectively, accounting for 41.4%, 39.6%, 45.7%, 43.5% and 49.4% of our total operating income for the same periods. As of December 31, 2018, 2019 and 2020 and March 31, 2021, the number of our corporate banking customers was approximately 332,300, 383,500, 417,900 and 424,100, respectively, the balances of our corporate loans were RMB95,480.1 million, RMB107,682.3 million, RMB136,673.6 million and RMB144,660.6 million, respectively, and the balances of our corporate deposits were RMB107,554.0 million, RMB126,499.5 million, RMB148,301.9 million and RMB154,637.0 million, respectively.

***Main Products and Services***

Our corporate banking products and services primarily consist of corporate loans, corporate deposits, international settlement and trade finance, and other fee-and commission-based corporate banking products and services.

*Corporate Loans*

The majority of our corporate loan customers are enterprises incorporated or otherwise have their primary operations in Dongguan. Corporate loans were the largest component of our loan portfolio during the Track Record Period in terms of year-end balances, most of which were RMB-denominated loans. As of December 31, 2018, 2019 and 2020 and March 31, 2021, the balances of our corporate loans were RMB95,480.1 million, RMB107,682.3 million, RMB136,673.6 million and RMB144,660.6 million, respectively, accounting for 58.1%, 52.3%, 52.3% and 52.5% of our total loans (excluding accrued interest) as of the same dates.

Distribution of Corporate Loans by Product Type

Our main corporate loan products include:

- working capital loans: we provide working capital loans to customers to meet their working capital demands in daily operations; and

- fixed asset loans: we provide fixed asset loans to customers to meet their financing needs of fixed asset investment projects, including infrastructure projects, technology innovation and upgrade projects, urban renovation and decoration and ancillary projects.

The following table sets forth our corporate loans by product type as of the dates indicated.

| | **As of December 31,** | | | | | | **As of March 31,** | |
|---|---|---|---|---|---|---|---|---|
| | **2018** | | **2019** | | **2020** | | **2021** | |
| | **Amount** | **% of total** | **Amount** | **% of total** | **Amount** | **% of total** | **Amount** | **% of total** |
| | *(in millions of RMB, except for percentages)* | | | | | | | |
| Working capital loans | 42,826.5 | 44.9% | 46,655.2 | 43.2% | 63,073.1 | 46.1% | 63,458.3 | 43.9% |
| Fixed asset loans | 51,281.5 | 53.7% | 58,805.2 | 54.6% | 69,532.5 | 50.9% | 75,920.7 | 52.5% |
| Others[(1)] | 1,372.1 | 1.4% | 2,221.9 | 2.2% | 4,068.0 | 3.0% | 5,281.6 | 3.6% |
| **Total** | **95,480.1** | **100.0%** | **107,682.3** | **100.0%** | **136,673.6** | **100.0%** | **144,660.6** | **100.0%** |

*Note:*

(1) Consisted primarily of mortgage loans on business premises and mechanical equipment.

Distribution of Corporate Loans by Maturity

The following table sets forth our corporate loans by maturity as of the dates indicated.

| | As of December 31, | | | | | | As of March 31, | |
|---|---|---|---|---|---|---|---|---|
| | 2018 | | 2019 | | 2020 | | 2021 | |
| | Amount | % of total | Amount | % of total | Amount | % of total | Amount | % of total |
| | (in millions of RMB, except for percentages) | | | | | | | |
| Short-term loans[(1)] | 29,983.6 | 31.4% | 34,766.6 | 32.3% | 41,055.9 | 30.0% | 43,988.0 | 30.4% |
| Medium-to-long-term loans[(2)] | 65,496.5 | 68.6% | 72,915.7 | 67.7% | 95,617.7 | 70.0% | 100,672.6 | 69.6% |
| **Total** | **95,480.1** | **100.0%** | **107,682.3** | **100.0%** | **136,673.6** | **100.0%** | **144,660.6** | **100.0%** |

*Notes:*

(1) Refers to loans and advances with a maturity of one year or less.

(2) Refers to loans and advances with a maturity of more than one year (excluding one year).

Distribution of Corporate Loans by Size of Borrowers

The following table sets forth the distribution of corporate loans by size of our borrowers as of the dates indicated.

| | As of December 31, | | | | | | As of March 31, | |
|---|---|---|---|---|---|---|---|---|
| | 2018 | | 2019 | | 2020 | | 2021 | |
| | Amount | % of total | Amount | % of total | Amount | % of total | Amount | % of total |
| | (in millions of RMB, except for percentages) | | | | | | | |
| SMEs[(1)] | 62,969.9 | 65.9% | 68,097.9 | 63.3% | 82,515.2 | 60.4% | 89,767.9 | 62.0% |
| Medium enterprises[(1)] | 23,281.4 | 24.4% | 28,277.8 | 26.3% | 37,349.4 | 27.3% | 37,696.0 | 26.1% |
| Large enterprises[(1)] | 8,392.2 | 8.8% | 10,605.0 | 9.8% | 16,156.6 | 11.8% | 16,597.3 | 11.5% |
| Others[(2)] | 836.6 | 0.9% | 701.6 | 0.6% | 652.4 | 0.5% | 599.4 | 0.4% |
| **Total** | **95,480.1** | **100.0%** | **107,682.3** | **100.0%** | **136,673.6** | **100.0%** | **144,660.6** | **100.0%** |

*Notes:*

(1) The classification criteria for large, medium, SMEs are set out by the 2017 Measures for Classification of Large, Medium, SMEs for the Purpose of Statistics (《統計上大中小微型企業劃分辦法(2017)》) (the "**2017 Measures for Classification**"). For details, please see "Definitions and Conventions".

(2) Consisted primarily of business loans extended to individual business owners.

Loans to SMEs

The vitality of SMEs in Dongguan is pivotal to the local economy. In order to leverage such characteristic and advantage of Dongguan economy, and to capitalize on the government initiatives to support SMEs in recent years, we are committed to meeting financing needs of SMEs for their daily operations. In November 2016, we established our SME Finance department with four centers, namely, customer center, operating center, product R&D center and comprehensive management and support center, to achieve collective management of loan approval, loan settlement and other SME-related businesses. As of December 31, 2018, 2019 and 2020 and March 31, 2021, we had approximately 2,500, 2,700, 2,800 and 2,800 loan customers of SMEs, respectively. As of the same dates, our corporate loans to SMEs were RMB62,969.9 million, RMB68,097.9 million, RMB82,515.2 million and RMB89,767.9 million, respectively, accounting for 65.9%, 63.3%, 60.4% and 62.0% of our total corporate loans, respectively.

During the Track Record Period, we introduced various tailor-made loan products to address specific needs of SMEs to improve the quality of our financial service to SMEs and increase profitability. We introduced, among other things, "Tax Financing Loan (稅融貸)", and "Operating Loans Collateralized by Residential Properties (宅e經營貸)". These SME loan products are tailored to specific groups of SME customers, and often with speedy approval process and improved efficiency. For instance, under the authorization by and in cooperation with Guangdong Provincial Tax Bureau, we launched "Tax Financing Loan (稅融貸)", which grants us access to tax payment and rating information of enterprises and allows us to approve different amounts of credit lines based on such information. We provide "Start-up Small Loan (小額創業貸)" to cater for the start-up capital needs of our customers, featuring zero interest and flexibility on required collaterals, which can be in the form of security, pledge, guarantee or others, to qualified customers which are eligible for interest subsidies from relevant authorities in Dongguan. Our SME loan approval process relies on publicly available data of the applicants, including filings with bureaus of industry and commerce, tax and legal proceeding, and is assisted by big data analysis and intelligent decision-making technologies, which we believe allows us to make informed decision on loan applications with improved review efficiency. Customers of our SME products include but not limited to SMEs under the 2017 Measures for Classification.

In addition, we have facilitated our financial services to SMEs by issuing our "SME One-Card-Pass (小微一卡通)" since 2017 to customers that are linked to their bank accounts for settlement, through which SMEs can access various financial services, including account query, transfer, deposits and withdrawal. As of December 31, 2018, 2019 and 2020 and March 31, 2021, the accumulated number of the cards we issued to our SME customers was approximately 51,700, 70,900, 87,700 and 91,900, respectively.

Our featured products to SMEs are well received by the market, evidenced by various awards we received, including:

- In August 2019, we have received awards of "Exceptional SME Financial Service Bank" and "Exceptional Inclusive Financial Service Bank" at the Third National Financial Technology Summit which was hosted by Xinhua Net;

- Our "House Construction Loans (建房貸)" was included as an example of inclusive financing to support urbanization of rural areas in "China Inclusive Financing Innovative Report (2018) (中國普惠金融創新報告(2018))" (published in July 2018) compiled by National Institution for Finance, Development, which is subordinated to the State Council; and

- Our "Tax Financing Loan (稅融貸)" was used as a primary sample for analysis in "Development of the Application of Financial Technologies in SME Loans《金融科技在小微企業信貸中的應用發展研究報告》" (published on April 30, 2019) compiled by Institute of Internet Industry, Tsinghua University.

Loans to large and medium enterprises

Large and medium enterprises are our valuable customer base. Our Key Account Marketing Center and Business Marketing Center operated under the Corporate Banking Department and Strategic Customer Department, respectively, are responsible for the centralized management of our major large corporate customers from a variety of industries, including wholesale and retail industry, leasing and commercial service industry, construction industry, manufacturing industry, and other industries.

As of December 31, 2018, 2019 and 2020 and March 31, 2021, the balances of our outstanding loans to large and medium enterprises were RMB31,673.6 million, RMB38,882.8 million, RMB53,506.0 million and RMB54,293.3 million, respectively.

*Discounted Bills*

Discounted bills (excluding rediscounted bills) is a service we provide to corporate customers in which we purchase from the corporate customers bank acceptance bills or commercial acceptance bills prior to their maturity by paying the nominal value of such bills less the discounted interest. For the years ended December 31, 2018, 2019 and 2020 and for the three months ended March 31, 2021, the interest income from our discounted bills was RMB13.9 million, RMB6.1 million, RMB20.2 million and RMB9.4 million, respectively. As of December 31, 2018, 2019 and 2020 and March 31, 2021, the balances of our discounted bills were RMB147.3 million, RMB127.7 million, RMB1,318.3 million and RMB1,643.4 million, respectively.

*Corporate Deposits*

As one of the basic services provided to our corporate customers, corporate deposits are one of the principal fund sources. Our corporate deposit customers mainly include governmental entities, public institutions, state-owned entities and private enterprises.

We provide our corporate customers time deposits and demand deposits in Renminbi and major foreign currencies, which primarily includes the U.S. Dollar, Euro, Hong Kong Dollar and Japanese Yen. A majority of the Renminbi time deposit services we offered have a term of five years or less. During the Track Record Period, deposits from governmental entities and the Village Groups constituted the majority of our corporate deposits. In particular, deposits from the Village Groups is an important part of our deposits.

Distribution of Corporate Deposits by Product Type

The following table sets forth our corporate deposits, net of accrued interest, by product type as of the dates indicated.

| | As of December 31, | | | | | | As of March 31, | |
|---|---|---|---|---|---|---|---|---|
| | 2018 | | 2019 | | 2020 | | 2021 | |
| | Amount | % of total | Amount | % of total | Amount | % of total | Amount | % of total |
| | (in millions of RMB, except for percentages) | | | | | | | |
| Demand deposits | 61,001.2 | 56.7% | 70,437.9 | 55.7% | 86,787.1 | 58.5% | 84,524.6 | 54.7% |
| Time deposits | 46,552.8 | 43.3% | 56,061.6 | 44.3% | 61,514.8 | 41.5% | 70,112.4 | 45.3% |
| **Total** | **107,554.0** | **100.0%** | **126,499.5** | **100.0%** | **148,301.9** | **100.0%** | **154,637.0** | **100.0%** |

As of December 31, 2018, 2019 and 2020 and March 31, 2021, our total corporate deposits were RMB107,554.0 million, RMB126,499.5 million, RMB148,301.9 million and RMB154,637.0 million, accounting for approximately 40.6%, 40.3%, 39.3% and 39.7% of our total deposits as of the same dates, respectively.

*International Settlement and Trade Finance*

Our International Business Department is responsible for the operation and the management of our international settlement and trade finance business. For the years ended December 31, 2018, 2019 and 2020 and three months ended March 31, 2020 and 2021, fee-and-commission income from international settlement and trade finance was RMB6.5 million, RMB8.4 million, RMB6.7 million, RMB1.5 million and RMB1.6 million, respectively.

We obtained the qualification to conduct foreign exchange operations in March 2001, forward exchange settlement and sales in cooperation in January 2008, and derivatives trading in April 2019. In April 2001, to serve the settlement needs arising from cross-borders transactions of our customers, we commenced our international settlement services, consisting of deposits in foreign currency, international remittance, foreign currency loan, interbank lending, cross-border fund investigation and certification. As of March 31, 2021, we established cooperation with nine offshore banks to provide settlement service covering major international currencies, primarily including the U.S. Dollar, Hong Kong Dollar, Euro and Japanese Yen. For the years ended December 31, 2018, 2019 and 2020 and for the three months ended March 31, 2020 and 2021, our international settlement transaction amount represented the equivalent of USD9,598.8 million, USD8,760.6 million, USD8,029.1 million, USD1,952.8 million and USD2,500.1 million, respectively.

Our trade finance business mainly consists of import bill advance, export bill advance, import bill payment service, export bill payment service, packaged loan and financing under domestic securities. Our trade finance business also includes the issuance of letters of credit for import and domestic letters of credit.

For the years ended December 31, 2018, 2019 and 2020 and for the three months ended March 31, 2020 and 2021, our trade finance transaction amount represented the equivalent of USD132.1 million, USD252.3 million, USD414.3 million, USD77.3 million and USD175.4 million, respectively.

*Other Fee-and-Commission-based Corporate Banking Products and Services*

Entrusted Loans

We extend entrusted loans to borrowers designated by our corporate banking customers who also determine the uses of proceeds, principal amounts and interest rates of such loans. We monitor the loan utilization status and provide assistance to our relevant customers in the collection of entrusted loans, and charge service fees based on the amount of such loans. Our relevant customers are the principals of the entrusted loans and bear the risks of default. As of December 31, 2018, 2019 and 2020 and March 31, 2020, our entrusted loans transaction balance amount of our Bank was RMB4,659.0 million, RMB2,169.1 million, RMB598.4 million and RMB2,135.1 million, respectively and our fee and commission income generated from the provision of entrusted loans were RMB11.7 million, RMB4.7 million, RMB2.8 million and RMB0.7 million, respectively, for the same periods. As of March 31, 2021, the balance amount of our entrusted loans transaction was RMB584.0 million and there was no fee and commission income generated as we did not extend new entrusted loans in the first three months of 2021.

Letters of Guarantee

We provide our corporate banking customers with letters of guarantee for non-financing purposes. Letters of guarantee for non-financing purposes include letters of guarantee for tender, performance of contract and prepayments. We charge annual service fee based on the guaranteed amount. As of December 31, 2018, 2019 and 2020 and March 31, 2020 and 2021, the balance of our letters of guarantee was RMB375.6 million, RMB630.4 million, RMB1,223.0 million, RMB645.1 million and RMB1,207.7 million, respectively. For the years ended December 31, 2018, 2019 and 2020 and for the three months ended March 31, 2020 and 2021, our fee and commission income generated from letters of guarantee were RMB0.9 million, RMB2.4 million, RMB4.8 million, RMB0.1 million and RMB0.4 million, respectively.

Corporate Wealth Management Agency Services

We offer our corporate customers a variety of wealth management products based on their risk appetites and return expectations, including principal-guaranteed wealth management products and non-principal-guaranteed wealth management products. As of March 31, 2021, we offered 80 types of such products customized to specific needs, and the variations of terms included but not limited to, duration of terms, start of interest bearing and principal-guaranteed or not. For instance, we have specifically designed a wealth management product, namely, Chuangfu Wealth Management Baoying No. 6 (創富理財寶盈6號) (the "Chuangfu Baoying No.6") customized to the specific investment needs of certain Village Group customers. Chuangfu Baoying No.6 is a principal-guaranteed wealth management product with prospective yield, which maintains various sub-products with different redemption periods, so as to address the needs for flexible investment periods and relative higher prospective yields of our Village Group customers. During the Track Record Period, our corporate wealth management products consisted primarily of investments in debt securities. We generally invested raised funds into investment portfolios of debt securities, bank deposits and other fixed income products. Our Product Management Center (產品管理中心), Investment Transaction Center （投資交易中心）, Investment Banking Transaction Center （投資銀行中心） and Wealth Management Center（資產配置中心） under the Investment Banking and Wealth Management Department are responsible for the R&D, investment and marketing of our wealth management products.

For the years ended December 31, 2018, 2019 and 2020 and the three months ended March 31, 2020 and 2021, the aggregate face value of wealth management products we sold to corporate banking customers was RMB53,315.2 million, RMB49,585.2 million, RMB42,013.9 million, RMB7,999.3 million and RMB9,962.6 million, respectively. As of December 31, 2018, 2019 and 2020 and March 31, 2021, the balance of our wealth management products sold to corporate banking customers was RMB13,294.0 million, RMB8,088.0 million, RMB7,293.9 million and RMB5,853.5 million, respectively.

Fee and commission income derived from our wealth management agency service was RMB311.6 million, RMB459.3 million, RMB328.7 million, RMB55.0 million and RMB65.9 million for the years ended December 31, 2018, 2019 and 2020 and the three months ended March 31, 2020 and 2021, respectively, representing 3.2%, 3.9%, 2.7%, 1.7% and 2.1% of our operating income as of the same periods. For details, please see "Financial Information — Results of Operations for The Years Ended December 31, 2018 and 2019 — Net Fee and Commission Income — Fee and Commission Income — Wealth Management Agency Service Fee", "Financial Information — Results of Operations for The Years Ended December 31, 2019 and 2020 — Net Fee and Commission Income — Fee and Commission Income — Wealth Management Agency Service Fee" and "Financial Information — Results of Operations for The Three Months Ended March 31, 2020 and 2021 — Net Fee and Commission Income — Fee and Commission Income — Wealth Management Agency Service Fee".

During the Track Record Period, CBIRC promulgated various rules. For example, on September 26, 2018, it promulgated the Measures for the Supervision and Administration of the Wealth Management Business of Commercial Banks (《商業銀行理財業務監督管理辦法》) (the "**2018 Wealth Management Measures**"), which provides that (i) commercial bank that sells wealth management products shall not advertise or promote the guarantee of principal and proceeds; and (ii) there is a transitional period which lasts from the date when the 2018 Wealth Management Measures comes into force to the end of 2020. During the transitional period, the new wealth management products issued by a commercial bank shall comply with the provisions of the 2018 Wealth Management Measures, and in respect of existing wealth management products, the commercial bank may issue former products during the transitional period to link up with assets invested by existing wealth management products which have yet come to maturity, provided that it shall strictly limit the products to the overall size of existing products and reduce them in an orderly manner. On July 31, 2020, PBoC issued the Notice of Optimizing Arrangement for the Transitional Period of Asset Management Guiding Opinion to Facilitate Steady Transformation of Asset Management Business (《優化資管新規過渡期安排引導資管業務平穩轉型》的通知) that extended the transitional period till the end of 2021. For more details, please refer to "Supervision and Regulations — Regulations on Principal Activities of Commercial Banks — Wealth Management". In response to these regulatory requirements, we took active measures to reduce and/or cease the offering of the relevant products.

After the implementation of the 2018 Wealth Management Measures, we reduced the scale of principal-guaranteed wealth management products, and instead issued deposit products to satisfy the customers' demand for principal-guaranteed products. As of December 31, 2018, 2019 and 2020 and March 31, 2020 and 2021, the principal-guaranteed wealth management products we issued amounted to RMB22,510.2 million, RMB15,879.2 million, RMB5,918.7 million, RMB2,632.8 million and RMB228.7 million, respectively, reflecting an overall declining trend. As a result, we experienced a continuous decrease in the sales volume of wealth management products to corporate customers during the Track Record Period. During the Track Record Period and up to the Latest Practicable Date, our wealth management products issued after the implementation of the 2018 Wealth Management Measures are in compliance with the aforementioned rules and regulations. We will comply with the relevant laws and regulations after the transitional period ending by the end of 2021.

The table below sets forth a breakdown of the volume of corporate wealth management products we issued into principal-guaranteed and non-principal-guaranteed corporate wealth management products during the periods indicated.

| | For the years ended December 31, | | | | | | For the three months ended March 31, | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2018 | | 2019 | | 2020 | | 2020 | | 2021 | |
| | Amount | % of total | Amount | % of total | Amount | % of total | Amount | % of total | Amount | % of total |
| | (in millions of RMB, except for percentages) | | | | | | | | | |
| Principal-guaranteed products | 22,510.2 | 42.2% | 15,879.2 | 32.0% | 5,918.7 | 14.1% | 2,632.8 | 32.9% | 228.7 | 2.3% |
| Non-principal-guaranteed products | 30,805.0 | 57.8% | 33,706.0 | 68.0% | 36,095.2 | 85.9% | 5,366.5 | 67.1% | 9,733.9 | 97.7% |
| **Total corporate wealth management products issued** | **53,315.2** | **100.0%** | **49,585.2** | **100.0%** | **42,013.9** | **100.0%** | **7,999.3** | **100.0%** | **9,962.6** | **100.0%** |

During the Track Record Period, all principal-guaranteed wealth management products and some non-principal-guaranteed wealth management products that were issued, managed and controlled by our Bank were consolidated in our financial statements. Non-principal-guaranteed wealth management products (the "**WMPs**") are special purpose entities sponsored and managed by us, which are not subject to any guarantee by us of the principal invested or return to be paid to the investors. As the manager of the WMPs, our Bank invests, on behalf of our customers, in assets as described in the investment plan related to each WMP and receives fee and commission income. According to IFRS10, if the variable returns earned by us are not material, we do not control the WMPs and shall be deemed as an agent for the investors to manage the WMPs and therefore do not consolidate the WMPs. Otherwise, when the returns earned by us are essential and we control the WMPs, we shall be deemed as the principal of the WMPs and consolidate these WMPs.

As of December 31, 2018, 2019 and 2020 and March 31, 2021, the consolidated non-principal-guaranteed WMPs amounted to RMB1,735.3 million, RMB3,059.8 million, RMB4,487.6 million and RMB5,687.3 million, respectively. For details, please see Note 37 to the Accountant's Report in Appendix I.

Pursuant to the 2018 Wealth Management Measures, we classify our wealth management products into five categories based on their risk levels: R1 refers to extremely low risk; R2 refers to low risk; R3 refers to medium risk; R4 refers to comparatively high risk and R5 refers to high risk. We set relevant scores according to various criteria such as investment scope, investment assets and investment ratio, product term, product past performance, major risks and risk prevention measures, and evaluate the risk rating of the wealth management products based on the comprehensive scores of products, with higher scores being the products with lower risks. Most of the principal-guaranteed wealth management products are categorized as R1 wealth management products. During the Track Record Period, we did not issue any R4 or R5 wealth management products.

The following table sets forth details of the corporate wealth management products we issued by risk levels during the periods indicated.

| | Years ended December 31, | | | | | | For the three months ended March 31, | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2018 | | 2019 | | 2020 | | 2020 | | 2021 | |
| | Amount | % of total | Amount | % of total | Amount | % of total | Amount | % of total | Amount | % of total |
| | *(RMB in millions, except for percentages)* | | | | | | | | | |
| R1 | 22,510.2 | 42.2% | 15,879.2 | 32.0% | 5,918.7 | 14.1% | 2,632.8 | 32.9% | 228.7 | 2.3% |
| R2 | 30,249.2 | 56.7% | 33,396.8 | 67.4% | 35,605.7 | 84.7% | 5,264.6 | 65.8% | 9,605.6 | 96.4% |
| R3 | 555.8 | 1.1% | 309.2 | 0.6% | 489.5 | 1.2% | 101.9 | 1.3% | 128.3 | 1.3% |
| **Total** | **53,315.2** | **100.0%** | **49,585.2** | **100.0%** | **42,013.9** | **100.0%** | **7,999.3** | **100.0%** | **9,962.6** | **100.0%** |

***Corporate Banking Customer Base***

Our corporate banking customers are mainly from (i) wholesale and retail industry, (ii) leasing and commercial service industry, (iii) construction industry, (iv) manufacturing industry; (v) real estate industry and other industries. As of March 31, 2021, our loans to customers in these industries accounted for 18.1%, 19.0%, 15.4%, 19.5% and 8.8%, of our total corporate loans as of the same dates, respectively. For details, please see "Assets and Liabilities — Assets — Loans and Advances to Customers — Corporate Loans — Distribution of Corporate Loans by Industry". As of March 31, 2021, we had approximately 3,600 corporate loan customers and 424,100 corporate deposit customers.

We have further expanded our corporate customer base through enhancement on customer services, capital contribution into rural cooperative organizations, and establishment of county outlets. We also seek to develop customers from public services, education, healthcare and other public sectors, which we believe are comparatively less affected by economic downturn. In addition, as of March 31, 2021, we had 13 Micro Finance Units devoted to SME customers. We offer various products tailored-made to SME customers' different capital needs with simplified procedures and speedy approval process such as "Tax Financing Loan (稅融貸)", and "Operating Loans with Residential Mortgage as Collateral (宅e經營貸)".

We had approximately 332,300, 383,500, 417,900 and 424,100 corporate banking customers as of December 31, 2018, 2019 and 2020 and March 31, 2021, respectively.

*Industrial Finance*

In 2016, we launched the Industrial Finance brand as one of our strategic focuses, in order to explore the business opportunities arising from the development and transformation of certain industries of Dongguan. In particular, we have identified and focused on ten key industries in Dongguan, including, among other things, environmental protection, education and high-end manufacturing, to further develop existing customers and procure new customers.

During the Track Record Period, we launched various tailor-made and comprehensive financial services to cater to the characteristics of such key industries. We also made continuous R&D and marketing efforts for such comprehensive financial services. As of March 31, 2021, we had approximately 126,425 customers from the ten key industries. As of March 31, 2021, our industrial financial services include:

- "Green Financing Connection (綠融通)", a portfolio of financial services targeting the environmental protection industry, which includes "Ecological Restoration Loans (生態修復貸)", "Green Project Loans (綠色項目貸)" and "Energy Saving Loans (節能貸)". Such products were utilized in environmental protection related projects, including Dongguan wastewater treatment projects, water and gas supply projects, waste-to-energy generation projects, and sewage pipeline construction projects;

- "Campus Financing Connection (校融通)", a portfolio of financial services targeting the education industry, which includes "Campus Construction Loan (建校貸)", "Campus Loan (校園貸)", "Assets Securitization of Tuition (學費資產證券化)" and "Bank-Campus Connection (銀校通)". Customers of these products primarily include private schools in Dongguan;

- "Bank-Hospital Connection (銀醫通)", a portfolio of financial services targeting the healthcare industry, which includes "Financing of Supply Chain of Health Care (醫療供應鏈融資)", "Hospital Construction Loan (醫院建設貸)", "Health Care Equipment Loan (醫療設備貸)", "Hospital Easy Loan (醫融易)" and "Medical Technology Loan (醫學科技貸)". Customers of these products include healthcare institutions and bio-pharmaceutical enterprises in Dongguan;

- "Smart Financing Connection (智融通)", a portfolio of financial services targeting the intelligent manufacturing industry, which includes "Intelligent Inclusion (智准入)", "Trade Connection (貿易通)", "Collective Connection (集群通)", "Intelligent Finance Connection (智融鏈)" and "Intelligent Manufacturing Loans (智造貸)". Customers of these products include manufacturers of high-end equipment, mold, green energy automobile and novel materials, as well as information technology enterprises;

- "Park Financing Connection (園融通)", a portfolio of financial services targeting industrial and R&D parks, which includes "Featured Park Loan (特色園區貸)", "Park Upgrade Loan (園區升級貸)", "Park Entry Loan (入園貸)" and "Park Leasing Loan (園區租賃貸)";

- "Bay Financing Connection (灣融通)", a portfolio of financial services in support of the developments in the Greater Bay Area, which includes "Greater Bay Area Infrastructure Loans (灣區基建貸)", "Greater Bay Area Project Loans (灣區項目貸)" and "Factory Operation Loans (廠房經營貸)"; and

- "City Financing Connection (城新通)", a portfolio of financial services in support of the urban upgrade, which includes "New Service (新服務)", "Renewal Financing (更新融)", "Upgrade Connection (升級通)", "New Chain Mobilization (新鏈動)" and "Industry-city Integration (產城聚)". Customers of these products include preparatory services providers, unitary enterprises and development and construction enterprises.

**Retail Banking Business**

***Overview***

We have a banking network with over 500 outlets and multiple channels and platforms, through which we provide retail banking customers with a wide range of products and services, including personal loans, personal deposits, banking cards, and various fee-and-commission-based products and services.

For the years ended December 31, 2018, 2019 and 2020 and for the three months ended March 31, 2020 and 2021, the operating income from our retail banking business was RMB4,012.8 million, RMB4,523.9 million, RMB5,286.1 million, RMB1,281.4 million and RMB1,287.2 million, respectively, accounting for 41.0%, 38.4%, 43.9%, 40.4% and 40.8% of the total operating income of the same periods. As of March 31, 2021, we had approximately 1,092,700 individual borrowers with total personal loans and advances to customers of RMB105,073.8 million. As of the same date, we had approximately 20,792,500 personal deposit customers with total personal deposits of RMB227,079.8 million.

Our Retail Business Department, Consumer Finance and Credit Card Department, Private Banking Department, Digital Finance Department, Investment Banking and Wealth Management Department work together to operate our retail banking businesses. We are dedicated to building up a multi-layer retail banking service system, strengthening our capabilities in product innovation, channel development and service enhancement, improving our customer experience and reinforcing the loyalty of our existing retail banking customers, and expanding retail banking customers base.

***Major Products and Services***

Our retail banking products and services primarily consist of personal loans, personal deposits, banking card services, and other fee-and-commission-based retail products and services.

*Personal Loans*

As of December 31, 2018, 2019 and 2020 and March 31, 2021, the outstanding balances of our personal loans was RMB49,541.7 million, RMB80,048.3 million, RMB98,015.9 million and RMB105,073.8 million, respectively, accounting for approximately 30.1%, 38.9%, 37.5% and 38.1% of our balance of loans to customers (excluding accrued interest) as of the same dates.

The following table sets forth the information of our personal loans by product type as of the dates indicated.

| | As of December 31, | | | | | | As of March 31, | |
|---|---|---|---|---|---|---|---|---|
| | 2018 | | 2019 | | 2020 | | 2021 | |
| | Amount | % of total | Amount | % of total | Amount | % of total | Amount | % of total |
| | (RMB in millions, except for percentages) | | | | | | | |
| Personal business loans | 9,766.5 | 19.7% | 18,001.0 | 22.5% | 25,609.6 | 26.1% | 27,604.0 | 26.3% |
| Residential mortgage loans | 23,568.3 | 47.6% | 32,441.2 | 40.5% | 37,665.4 | 38.4% | 39,788.3 | 37.9% |
| Credit card balances | 10,870.7 | 21.9% | 10,516.3 | 13.1% | 8,223.9 | 8.4% | 7,601.2 | 7.2% |
| Personal consumption loans | 5,336.2 | 10.8% | 19,089.8 | 23.9% | 26,517.0 | 27.1% | 30,080.3 | 28.6% |
| **Total** | **49,541.7** | **100.0%** | **80,048.3** | **100.0%** | **98,015.9** | **100.0%** | **105,073.8** | **100.0%** |

Personal Business Loans

We provide personal business loans to individuals engaging in lawful business operation to serve their business operation needs, primarily including working capital replenishment and capital for fixed assets procurement. We offer tailor-made products to satisfy specific capital needs of these customers which are often urgent, frequent and in relatively small amounts, and preferably with flexible maturity terms and collaterals.

As of December 31, 2018, 2019 and 2020 and March 31, 2021, the balances of our personal business loans were RMB9,766.5 million, RMB18,001.0 million, RMB25,609.6 million and RMB27,604.0 million, respectively, accounting for approximately 19.7%, 22.5%, 26.1% and 26.3% of our total personal loans as of the same dates.

Residential Mortgage Loans

We provide our retail banking customers with residential mortgage loans for their purchase of new and second-hand residential properties. Such mortgage loans are secured by the underlying properties being purchased by borrowers and can have a term of up to 30 years. Generally, the residential loan amount will not exceed 70% of the purchase price or appraised value of the property. Property appraisal is generally conducted by independent property valuers. As of December 31, 2018, 2019 and 2020 and March 31, 2021, our balances of residential mortgage loans were RMB23,568.3 million, RMB32,441.2 million, RMB37,665.4 million and RMB39,788.3 million, respectively, accounting for approximately 47.6%, 40.5%, 38.4% and 37.9% of our total personal loans as of the same dates.

Credit Card Balances

Our customers can use credit cards issued by us on consumptions, transfer and cash withdrawal services. As of December 31, 2018, 2019 and 2020 and March 31, 2021, our credit card balances were RMB10,870.7 million, RMB10,516.3 million, RMB8,223.9 million and RMB7,601.2 million, respectively, accounting for approximately 21.9%, 13.1%, 8.4% and 7.2% of our total personal loans as of the same dates.

Personal Consumption Loans

We provide personal consumption loans to our retail banking customers for their personal and household consumption needs such as house renovation, education, healthcare, traveling and purchase of durable consumer goods including automobiles. Our extensive network coverage and well-developed online platform have enabled us to provide efficient and convenient access to our products and services. Our internal credit assessment system enables us to make objective assessment of default risk of our customers, allocate appropriate rating to each customer and accurately screen and analyze our customers' credit history.

Our personal consumption loans are primarily extended to employees of certain enterprises and institutions, including governmental agencies, public institutions and other institutions that we believe are of strategic importance to us, as well as the Village Group residents. These loans generally have a term of up to 10 years and a maximum amount of RMB1.0 million.

In addition, we offer our customers a variety of online personal consumption loans, such as "Digital Instant Loan (D快貸)". The application, approval, extension of loans, proceeds drawdown and repayment can all be completed on our e-banking Apps. Generally, these loan products have a maximum principal amount of RMB200,000 and a maximum maturity term of three years.

As of December 31, 2018, 2019 and 2020 and March 31, 2021, the balance of our personal consumption loans was RMB5,336.2 million, RMB19,089.8 million, RMB26,517.0 million and RMB30,080.3 million, respectively, accounting for approximately 10.8%, 23.9%, 27.1% and 28.6% of our total personal loans as of the same dates.

*Personal Deposits*

We provide retail banking customers with various types of demand deposits and time deposits, primarily denominated in Renminbi. In 2015, we obtained the qualification to issue large-denominated deposit certificates, which are denominated in Renminbi and targeted at non-financial institution investors. To better engage and retain our high-end non-financial institution customers and capture the market demands arising from liberalization of interest rates in the PRC, we provide large-denominated deposit certificates to, among other things, individual customers with savings over RMB200,000. As of December 31, 2018, 2019 and 2020 and March 31, 2021, total deposits from our large-denominated personal deposit certificates were RMB11,369.7 million, RMB18,684.1 million, RMB17,848.0 million and RMB17,457.7 million, respectively.

The following table sets forth our personal deposits by product type as of the dates indicated.

| | As of December 31, | | | | | | As of March 31, | |
|---|---|---|---|---|---|---|---|---|
| | 2018 | | 2019 | | 2020 | | 2021 | |
| | Amount | % of total | Amount | % of total | Amount | % of total | Amount | % of total |
| | *(RMB in millions, except for percentages)* | | | | | | | |
| Demand deposits | 79,817.1 | 52.7% | 91,456.5 | 50.7% | 102,798.2 | 46.4% | 101,253.8 | 44.6% |
| Time deposits | 71,629.9 | 47.3% | 88,953.5 | 49.3% | 118,593.6 | 53.6% | 125,826.0 | 55.4% |
| **Total.** | **151,447.0** | **100.0%** | **180,410.0** | **100.0%** | **221,391.8** | **100.0%** | **227,079.8** | **100.0%** |

As of December 31, 2018, 2019 and 2020 and March 31, 2021, the balances of our personal deposits were RMB151,447.0 million, RMB180,410.0 million, RMB221,391.8 million and RMB227,079.8 million, respectively, accounting for 57.1%, 57.4%, 58.6% and 58.3% of our deposit balance as of the same dates. As of March 31, 2021, the balances of our personal deposits accounted for approximately 23.27% of the total personal deposits in Dongguan according to PBoC Dongguan Center Branch, which also ranked the first among all the commercial banks in Dongguan.

Traditionally, a significant portion of our retail banking customers were Village Group residents who subscribe to our various products, including, among other things, large-denominated deposit certificates.

*Banking Card Services*

Credit Cards

Income from our credit cards mainly consists of annual fees, merchant rebates, cash withdrawal fees, other fee-and-commission income and interest income. We offer our credit card holders value-added services including installment payment and special offering by designated merchants.

We first offered credit card service in 2013 when we issued our first credit card. As of March 31, 2021, we launched 31 types of credit cards, among which five types were co-branded and jointly issued with third parties. Based on different credit levels and consumption preferences of card holders, our credit cards include ordinary card, gold card, platinum card and diamond card. Platinum cards are further classified into classic platinum card and premium platinum card to better cater for the needs of mid- to high-end customers. We also launched "Qian Card (倩卡)" and "Li Card (儷卡)" specifically to our mid- to high-end female customers. In August 2018, our "King Credit Card/Queen Credit Card" was recognized jointly by Guangdong Enterprise Guide and Guangdong Entrepreneur Organization as "Guangdong Province Best Proprietary Brand (廣東省最佳自主品牌)".

During the Track Record Period, the number of our issued credit cards grew steadily. As of December 31, 2018, 2019 and 2020 and March 31, 2021, we had in aggregate issued approximately 229,000, 339,000, 483,000 and 510,000 credit cards, respectively. As of the same dates, our credit card balances were RMB10,870.7 million, RMB10,516.3 million, RMB8,223.9 million and RMB7,601.2 million, respectively.

Debit Cards

Our debit cards are classified into three categories, namely, ordinary card, gold card and platinum card based on our customers' daily average balances. The minimum daily average balance amount for gold card and platinum card is RMB50,000 and RMB200,000, respectively, while there is no such minimum daily average balance amount for ordinary card. Each category allows respective customer group to access different types of services.

Our debit card holders can access various types of financial services, including deposits and withdrawal, ATM transactions, payment and collection, all-day telephone banking and mobile payments. Income from our debit card business mainly consists of payment processing fees, SMS fees, ATM cash withdrawal and transfer fees, and annual fees. Our membership in China UnionPay grants our debit cards acceptance through China UnionPay's network in China and abroad.

As of December 31, 2018, 2019 and 2020 and March 31, 2021, we issued an aggregate of approximately 13.2 million, 13.8 million, 14.3 million and 14.4 million outstanding debit cards, respectively.

POS Settlement Business

Pursuant to POS settlement cooperation agreements we entered into with designated merchants, we provide settlement services for transactions between the designated merchants and our cardholders. We also assume various responsibilities, including risk management, merchant training and routine inspection. For the years ended December 31, 2018, 2019 and 2020 and the three months ended March 31, 2021, the numbers of newly added participating merchants of our POS settlement business were approximately 6,600, 8,100, 6,500 and 1,600, respectively. As of March 31, 2021, we had a total of approximately 17,700 participating merchants.

*Other Fee-and-Commission-Based Retail Products and Services*

Our other fee-and-commission-based retail products and services primarily consist of personal wealth management products, payroll, dividend, and collection and payment agency services.

Personal Wealth Management Products and Private Banking

In 2006, we launched our first personal wealth management product. As of March 31, 2021, our independently designed wealth management products were classified into the following two categories, based on criteria such as principal-guaranteed or not, yield prospect and investment term:

- Prospective yield type (預期收益型), which include principal-guaranteed products or non principal-guaranteed products with anticipated investment return. For instance, Chuangfu Wealth Management Ririying No.4 (創富理財日日盈4號) has flexibility in its redemption timing and pays monthly dividend and Chuangfu Wealth Management An'ying No.5 (創富理財安盈5號) has flexibility in duration but no early redemption option; and

- Net value type (淨值型), which are non-principal-guaranteed products without anticipated investment return. For instance, Chuangfu Wealth Management Zengying No.9 (創富理財增盈系列9號) is only available to certain qualified investors, under which dividends are paid quarterly without redemption option.

To cater to our retail banking customers' various levels of expected return and risk appetite, we issued 80 types of wealth management products in aggregate as of March 31, 2021, including principal-guaranteed and non-principal-guaranteed wealth management products, with different minimum subscription amounts, terms and estimated rates of return. Funds raised from wealth management products are primarily invested in debt securities, bank deposits, money market instruments and other fixed-income products.

The table below sets forth a breakdown of the volume of personal wealth management products we issued into principal-guaranteed and non-principal-guaranteed personal wealth management products during the periods indicated.

| | **For the years ended December 31,** | | | | | | **For the three months ended March 31,** | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2018** | | **2019** | | **2020** | | **2020** | | **2021** | |
| | **Amount** | **% of total** | **Amount** | **% of total** | **Amount** | **% of total** | **Amount** | **% of total** | **Amount** | **% of total** |
| | *(in millions of RMB, except for percentages)* | | | | | | | | | |
| Principal-guaranteed products | 11,434.2 | 13.9% | 15,224.1 | 16.5% | 5,427.5 | 6.1% | 1,940.5 | 9.9% | 389.9 | 1.8% |
| Non-principal-guaranteed products | 70,733.1 | 86.1% | 77,215.8 | 83.5% | 83,225.5 | 93.9% | 17,698.4 | 90.1% | 21,342.9 | 98.2% |
| **Total personal wealth management products issued** | **82,167.3** | **100.0%** | **92,439.9** | **100.0%** | **88,653.0** | **100.0%** | **19,638.9** | **100.0%** | **21,732.8** | **100.0%** |

Our personal wealth management business has grown soundly in recent years. For the years ended December 31, 2018, 2019 and 2020 and for the three months ended March 31, 2020 and 2021, the face value of wealth management products sold to our retail banking customers was RMB82,167.3 million, RMB92,439.9 million, RMB88,653.0 million, RMB19,638.9 million and RMB21,732.8 million, respectively. As of December 31, 2018, 2019 and 2020 and March 31, 2021, the balance of wealth management products sold to our retail banking customers was RMB34,487.0 million, RMB37,093.3 million, RMB36,300.1 million and RMB38,130.4 million, respectively. As of March 31, 2021, we had approximately 76,340 retail wealth management customers.

Pursuant to the 2018 Wealth Management Measures, we classify our wealth management products into five categories based on their risk levels: R1 refers to extremely low risk; R2 refers to low risk; R3 refers to medium risk; R4 refers to comparatively high risk and R5 refers to high risk. Most principal-guaranteed wealth management products are classified as R1 wealth management products. During the Track Record Period, we did not issue any R4 or R5 wealth management products.

The following table sets forth details of the personal wealth management products we issued by risk levels during the periods indicated.

| | **For the years ended December 31,** | | | | | | **For the three months ended March 31,** | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2018** | | **2019** | | **2020** | | **2020** | | **2021** | |
| | **Amount** | **% of total** | **Amount** | **% of total** | **Amount** | **% of total** | **Amount** | **% of total** | **Amount** | **% of total** |
| | *(RMB in millions, except for percentages)* | | | | | | | | | |
| R1 | 11,434.2 | 13.9% | 15,224.1 | 16.5% | 5,427.5 | 6.1% | 1,940.5 | 9.9% | 389.9 | 1.8% |
| R2 | 56,256.7 | 68.5% | 61,889.0 | 66.9% | 71,383.6 | 80.5% | 14,882.0 | 75.8% | 21,164.0 | 97.4% |
| R3 | 14,476.4 | 17.6% | 15,326.8 | 16.6% | 11,841.9 | 13.4% | 2,816.3 | 14.3% | 178.9 | 0.8% |
| **Total** | **82,167.3** | **100.0%** | **92,439.9** | **100.0%** | **88,653.0** | **100.0%** | **19,638.9** | **100.0%** | **21,732.8** | **100.0%** |

In 2015, we established our Private Banking Center, which was renamed to Private Banking Department in April 2019, to provide one-stop financial services tailored to our high-end customers. These products and services mainly include wealth management products tailor-made for high net worth families, family wealth planning and family healthcare services. For the years ended December 31, 2018, 2019 and 2020 and for the three months ended March 31, 2020 and 2021, the aggregate nominal value of our sales of wealth management products to private banking customers was RMB11,502.1 million, RMB12,036.0 million, RMB11,570.0 million, RMB2,245.5 million and RMB1,825.6 million, respectively. As of December 31, 2018, 2019 and 2020 and for the three months ended March 31, 2020 and 2021, the balances of our wealth management products sold to private banking customers were RMB4,560.5 million, RMB4,450.8 million, RMB3,193.2 million, RMB4,147.8 million and RMB2,711.9 million, respectively. As of the same dates, we had approximately 4,300, 4,600, 5,300, 4,800 and 5,500 private banking customers, respectively. In 2018, our private banking team won the championship in the sixth Dongguan Golden Wealth Management Planner Competition and also received the award of "Private Banking Brand with the Greatest Potential" at the Fourteenth Annual Meeting of Pan-Asia Wealth Management and Private Banking.

Fee and commission income derived from our wealth management agency service was RMB311.6 million, RMB459.3, RMB328.7 million, RMB55.0 million and RMB65.9 million for the years ended December 31, 2018, 2019 and 2020 and for the three months ended March 31, 2020 and 2021, respectively, representing 3.2%, 3.9%, 2.7%, 1.7% and 2.1% of our operating income as of the periods. For details, please see "Financial Information — Results of Operations for The Years Ended December 31, 2018 and 2019 — Net Fee and Commission Income — Fee and Commission Income — Wealth Management Agency Service Fee", "Financial Information — Results of Operations for The Years Ended December 31, 2019 and 2020 — Net Fee and Commission Income — Fee and Commission Income — Wealth Management Agency Service Fee" and "Financial Information — Results of Operations for The Three Months Ended March 31, 2020 and 2021 — Net Fee and Commission Income — Fee and Commission Income — Wealth Management Agency Service Fee".

*Agency Services*

Insurance Services

As of March 31, 2021, we were entrusted by 19 insurance companies as their agent to distribute over 200 of their insurance products, including life insurance and property insurance products. These insurance companies will enter into insurance contracts with such customers in connection with relevant purchase while we charge commission for such agency services. For the years ended December 31, 2018, 2019 and 2020 and for the three months ended March 31, 2021, we had distributed insurance products with a total transaction volume of RMB2,083.5 million, RMB1,819.1 million, RMB1,284.4 million and RMB457.1 million, respectively.

Fund Agency Services

In 2011, we were qualified by CSRC to provide fund agency services. As of March 31, 2021, we had established working relationship with 26 fund companies and distributed over 1,900 fund products under such agency arrangement for them. We enter into cooperative agency agreements with fund companies and assist them to sell their fund products to customers. We charge commission for such agency services stipulated in the cooperative agreements. Retail banking customers may purchase five types of fund products through us, namely, currency fund, debt security fund, hybrid fund, equity fund and short-term wealth management fund. We have implemented strict policies and procedures for the selection and assessment of fund companies, including but not limited to, the historical performance, fund size and investment strategies. For the years ended December 31, 2018, 2019 and 2020 and for the three months ended March 31, 2021, we had distributed fund products with a total transaction volume of RMB17,953.4 million, RMB10,885.4 million, RMB6,476.7 million and RMB1,567.7 million, respectively.

Agency for Precious Metal Trading

We act as an agent for sales of tangible precious metal products by suppliers of precious metal. In 2013, we filed the registration for agency services for sales of branded gold and received confirmation for registration from Financial Market Department of PBoC. As of March 31, 2021, we had cooperation with nine gold companies and provided agency services for the sales of over 700 types of precious metal products with standardized specification and purity. We charge commission for such agency services. For the years ended December 31, 2018, 2019 and 2020 and for the three months ended March 31, 2021, the transaction volume of such agency sales was RMB55.6 million, RMB62.9 million, RMB135.7 million and RMB55.8 million, respectively.

Underwriting of Treasury Bonds

In March 2018, we commenced underwriting services for treasury saving bonds. Our customers may purchase and redeem treasury saving bonds at our counter, or use such treasury bonds as mortgage for their loan applications. For the years ended December 31, 2018, 2019 and 2020 and for the three months ended March 31, 2021, the transaction amount of such services was RMB662.9 million, RMB1,027.6 million, RMB528.7 million and RMB132.0 million, respectively.

Payroll, Dividend, and Collecting and Payment Services

We provide government entities, public institutions, enterprises with agency services for their payroll and the Village Groups for their payment of dividend. As of December 31, 2018, 2019 and 2020 and March 31, 2021, we provided funds disbursement and payment agency services to approximately 7,300, 9,100, 11,500 and 10,800 corporate customers, respectively, for payment of salary and dividend. For the years ended December 31, 2018, 2019 and 2020 and for the three months ended March 31, 2021, the total amount of salaries and dividend paid through our payroll services was RMB33,435.4 million, RMB40,285.0 million, RMB46,038.3 million and RMB17,315.1 million, respectively.

Employees and the Village Group residents that receive their salaries or dividends in their personal bank accounts with us are the important sources for our mid-and high-end retail banking customers. As of December 31, 2018, 2019 and 2020 and March 31, 2021, we had approximately 1.8 million, 1.9 million, 2.2 million and 1.3 million individual payroll or dividend service customers, respectively.

We provide collection and payment agency service for rent, utilities such as electricity, telephone bills, and tuition fees. Such fees could be paid through various channels including our personal online banking websites, mobile banking Apps, D+Bank App and counters. In line with our strategy to enhance our rural financial services, we launched "Village Easy Pay (村繳易)" in December 2018, which is a comprehensive collection and payment of rent service specifically designed for the Village Groups.

***Retail Banking Customer Base***

During the Track Record Period, we continued to expand our retail banking customer base. As of December 31, 2018, 2019 and 2020 and March 31, 2021, we had approximately 17.8 million, 19.4 million, 20.6 million and 20.7 million retail banking customers, respectively. The Village group residents constitute an important part of our retail banking customer base. We have also expanded our retail banking customer base through our Industrial Finance services. In particular, we have participated in a number of investment and financing projects of local governments and public institutions for public transportation and other public welfare facilities, mainly including schools and hospitals. For instance, since January 2018 we have been in cooperation with a company operating the subway service in Dongguan, to enable IC card and mobile flash payment in connection with subway and bus services. Our "Bank Campus Connection (銀校通)" provides electronic payment services to schools and our "Mobile Healthcare（移動醫療）" provides services for hospital such as online appointment, payment and report queries.

We seek to provide differentiated services to our retail banking customers and enhance their loyalty and explore cross-selling opportunities. We classify our customers into 11 categories based on the amount of their total financial assets. For instance, customers whose financial assets are between RMB3.0 million and RMB6.0 million are classified as "7-Stars Customers", and customers whose financial assets are RMB6.0 million or above are classified as "Crown Customers", "2-Crowns Customers" and "3-Crowns Customers". Our Private Banking Business Department provides high-net worth customers with customized financial products. In response to the challenges brought by internet and mobile platforms, we have launched various products and services easily accessible from internet terminals and mobile handsets in cooperation with third-party platforms. For instance, we have cooperated with a leading Internet company to provide inter-district small loans. For details, please see "— Distribution Network — Electronic Banking Channels — Online Banking."

**Treasury Business**

***Overview***

Our treasury business consists primarily of money market transactions and investment business. As of December 31, 2018, 2019 and 2020 and March 31, 2020 and 2021, the operating incomes of our treasury business were RMB1,467.7 million, RMB2,204.7 million, RMB1,385.8 million, RMB475.8 million and RMB291.4 million, representing 15.0%, 18.7%, 11.5%, 15.0% and 9.2% of the total operating incomes, respectively.

We have accumulated abundant industry experience and market recognition. From 2015 to 2020, we were awarded "Exceptional Proprietary Institution (優秀自營機構)" by CCDC for six consecutive years. In 2017, we were awarded "Exceptional Issuance Institution (優秀發行機構)" by CCDC and "Exceptional Institution of the Year for Debt Securities Net Amount Proprietary Clearing (年度債券淨額自營清算優秀獎)" by Shanghai Clearing House (上海清算所). From 2017 to 2020, we were recognized by the China Foreign Exchange Trading Centre as an "active traders of the inter-bank RMB market" for four consecutive years.

We obtained various qualifications for treasury business, including:

- in 2017, we obtained the qualification of underwriting of debt financing instruments for non-financial enterprises (非金融企業債務融資工具承銷資格);

- in 2017, we obtained the membership of underwriters syndicates for treasury saving bonds (儲蓄國債) and book-entry treasury bonds (記賬式國債) in 2018-2020 from the MOF;

- in 2018, we obtained the membership of the syndicate of underwriting and distributing financial debt securities of China Development Bank and The Export-Import Bank of China;

- in 2018, we obtained the membership of underwriters syndicate for debt securities of Guangdong Provincial Government;

- in February 2019, we obtained the qualification as the lead underwriter of Type B corporate debt financing instruments, being the first local commercial bank to obtain such qualification in Dongguan;

- in April 2019, we obtained the qualification to engage in common derivatives trading; and

- in December 2020, we obtained the membership of underwriters syndicates for treasury saving bonds (儲蓄國債) and book-entry treasury bonds (記賬式國債) in 2021-2023 from the MOF.

Our variety of business qualifications have laid a solid foundation for our treasury business.

***Major Products and Services***

*Money Market Transactions*

Our money market transactions mainly include: (i) interbank placement; (ii) interbank deposits; and (iii) financial assets held under resale agreements and sold under repurchase agreements.

Interbank Placement

In January 1999, we were among the first group of RCCUs approved by PBoC to enter interbank markets. Interbank placement is a short-term funding business conducted through China Foreign Exchange Trade System & National Interbank Funding Center.

As of December 31, 2018, 2019 and 2020 and March 31, 2021, the balance of our placements with banks and other financial institutions (including Renminbi and foreign currencies) was equivalent to RMB2,024.6 million, RMB4,174.0 million, RMB890.8 million and RMB990.0 million, respectively. As of the same dates, the balance of our placements from banks and other financial institutions was equivalent to RMB1,601.1 million, RMB1,250.0 million, RMB700.0 million and RMB1,700.0 million, respectively. For the years ended December 31, 2018, 2019 and 2020 and the three months ended March 31, 2020 and 2021, our interest income generated from placement with banks and other financial institutions was RMB52.0 million, RMB113.8 million, RMB95.2 million, RMB41.8 million and RMB7.6 million, respectively. For the same periods, our interest expenses on placement from banks and other financial institutions was RMB59.6 million, RMB32.5 million, RMB59.2 million, RMB10.6 million and RMB19.3 million, respectively.

Interbank Deposits

Interbank deposits include deposits with and from banks and other financial institutions. As of December 31, 2018, 2019 and 2020 and March 31, 2021, our deposits with banks and other financial institutions was RMB3,459.6 million, RMB11,768.0 million, RMB12,306.9 million and RMB10,729.6 million, respectively. As of the same dates, our deposits from banks and other financial institutions were RMB29,149.7 million, RMB18,980.2 million, RMB17,200.9 million and RMB26,042.0 million, respectively. For the years ended December 31, 2018, 2019 and 2020 and the three months ended March 31, 2020 and 2021, our interest income generated from our deposits with banks and other financial institutions were RMB76.4 million, RMB73.5 million, RMB47.3 million, RMB21.8 million and RMB10.1 million, respectively. Our interest expense on deposits from banks and other financial institutions were RMB1,710.9 million, RMB941.1 million, RMB522.0 million, RMB136.7 million and RMB122.1 million, respectively, for the same periods.

Financial Assets Held under Resale Agreements and Sold under Repurchase Agreements

As of December 31, 2018, 2019 and 2020 and March 31, 2020 and 2021, our financial assets held under resale agreements were RMB9,558.0 million, RMB5,317.7 million, RMB5,542.9 million, RMB5,660.1 million and

RMB7,672.1 million, respectively, and our financial assets sold under repurchase agreements were RMB22,200.3 million, RMB25,939.0 million, RMB25,466.4 million, RMB5,475.2 million and RMB17,736.3 million, respectively. The underlying financial assets in these transactions primarily consist of treasury bonds, local bonds, policy financial bonds as well as debt securities and interbank certificates of deposits issued by commercial banks.

The leverage ratios of the financial assets held under resale agreements and sold under repurchase can be calculated as the ending balance of resale or repurchase transactions divided by the nominal value of the underlying assets. As of December 31, 2018, 2019 and 2020 and March 31, 2021, the leverage ratios of the financial assets held under resale agreements were 96.7%, 96.1%, 91.2% and 92.8%, respectively. As of the same dates, the leverage ratios of the financial assets sold under repurchase agreements were 95.5%, 93.7%, 94.2% and 95.4%, respectively.

The interest rate for a transaction under resale agreement or repurchase agreement transaction refers to the interest paid or earned from such transaction, which is the difference between the initial sale price and the buyback price, presented in the form of per annum percentage. As of 2018, 2019, 2020 and March 31, 2021, the interest rates for our financial assets held under resale agreements were in the ranges of 1.0% to 14.0%, 0.8% to 4.5%, 0.6% to 5.0% and 0.6% to 12.0%, respectively. As of the same dates, the interest rates for our financial assets sold under repurchase agreements were in the range of 1.3% to 5.0%, 0.8% to 3.2%, 0.4% to 3.1% and 0.5% to 3.6%, respectively. For the years ended December 31, 2018, 2019 and 2020 and the three months ended March 31, 2020 and 2021, interest earned for our financial assets held under resale agreements were RMB305.6 million, RMB297.1 million, RMB234.9 million, RMB40.9 million and RMB61.8 million, respectively, and interest paid for our financial assets sold under repurchase agreements were RMB543.9 million, RMB496.6 million, RMB420.9 million, RMB117.1 million and RMB146.8 million, respectively, for the same periods.

*Investment Business*

Our investment business mainly consists of debt securities investment, rights to earnings on credit assets and fund investments. Our investments include but not limited to direct investment, investment in wealth management plans and trust plans.

Debt Securities Investments

Debt securities investments form the majority of our investment business. As of March 31, 2021, debt securities assets accounted for 87.9% of our total financial investment assets. We invest in debt securities issued by PRC central and local government, policy banks, commercial banks and companies. As of December 31, 2018, 2019 and 2020 and March 31, 2020 and 2021, our debt securities investment was RMB167,140.6 million, RMB173,654.7 million, RMB198,595.1 million, RMB170,232.2 million and RMB200,165.7 million, respectively, accounting for 41.0%, 37.7%, 36.2%, 36.9% and 35.5%, respectively, of our total assets as of the same dates. For the years ended December 31, 2018, 2019 and 2020 and for the three months ended March 31, 2020 and 2021, interest income generated from our debt securities investment was RMB5,824.2 million, RMB5,057.2 million, RMB5,623.7 million, RMB1,452.7 million and RMB1,578.5 million, respectively, accounting for 36.1%, 29.1%, 28.8%, 30.5% and 29.8% of our total interest income of the same periods.

The following table sets forth the breakdown of our debt securities investment as of the dates indicated.

| | As of December 31, | | | | | | As of March 31, | |
|---|---|---|---|---|---|---|---|---|
| | 2018 | | 2019 | | 2020 | | 2021 | |
| | Amount | % of total | Amount | % of total | Amount | % of total | Amount | % of total |
| | *(RMB in millions, except for percentages)* | | | | | | | |
| Debt securities issued by the PRC central government | 36,075.3 | 21.6% | 37,168.8 | 21.4% | 58,374.8 | 29.4% | 52,269.7 | 26.1% |
| Debt securities issued by the local government | 34,301.3 | 20.5% | 55,790.2 | 32.1% | 66,941.8 | 33.7% | 70,458.1 | 35.2% |
| Debt securities issued by policy banks[1] | 8,105.5 | 4.8% | 17,658.1 | 10.3% | 28,409.3 | 14.4% | 31,389.3 | 15.9% |
| Debt securities issued by commercial banks | 1,834.3 | 1.1% | 1,918.3 | 1.0% | 4,775.5 | 2.4% | 9,713.9 | 4.7% |
| Debt securities issued by securities companies | 40.9 | 0.0% | 283.4 | 0.2% | 38.0 | 0.0% | 98.0 | 0.0% |
| Debt securities issued by financial leasing companies | 10,380.1 | 6.2% | 5,735.7 | 3.3% | 2,140.1 | 1.1% | 1,662.8 | 0.8% |
| Debt securities issued by other financial institutions | 6,419.1 | 3.8% | 1,794.2 | 1.0% | 1,129.7 | 0.6% | 1,003.9 | 0.5% |
| Debt securities issued by PRC corporate issuers | 63,108.3 | 37.8% | 44,479.8 | 25.6% | 27,232.2 | 13.7% | 24,099.7 | 12.0% |
| Interbank certificates of deposits | 6,875.7 | 4.1% | 8,826.2 | 5.1% | 9,553.7 | 4.8% | 9,470.3 | 4.8% |
| **Total debt securities[2]** | **167,140.6** | **100.0%** | **173,654.7** | **100.0%** | **198,595.1** | **100.0%** | **200,165.7** | **100.0%** |

*Notes:*

(1) Policy banks refer to China Development Bank, Export and Import Bank of China and Agricultural Development Bank of China.

(2) Including debt securities investments through asset management plans.

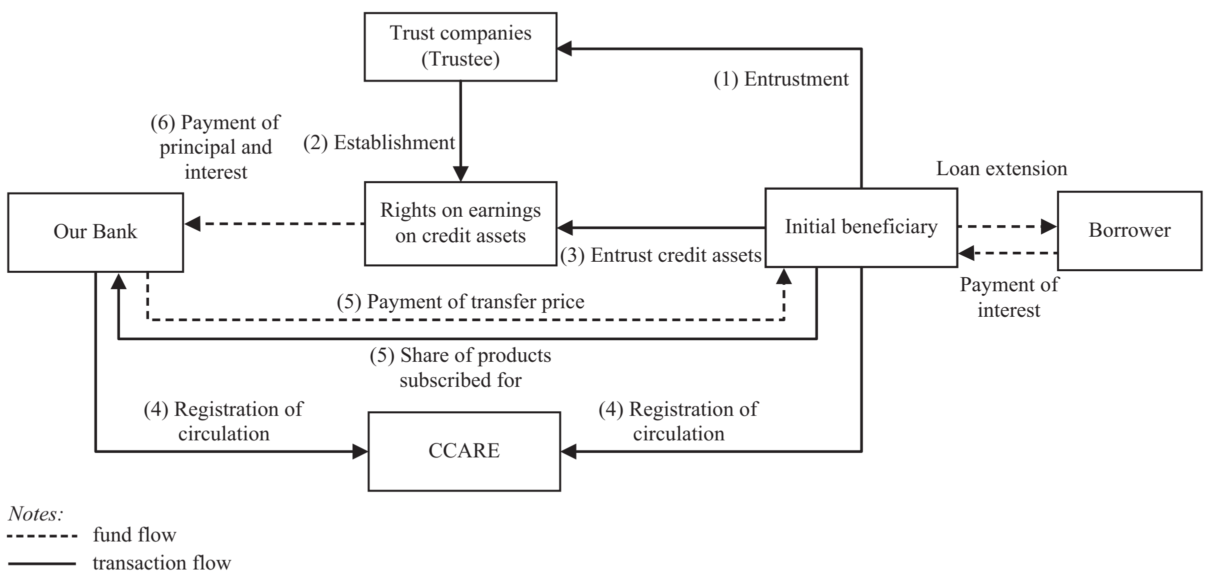
We conduct scenario analysis through various monitoring and analytical tools, including, among other things, COMSTAR Fund Business Management System, on market risks, such as adverse movements of asset prices and fluctuations of benchmark rates in the market, which helps to formulate corresponding contingency plans, and adjust our investment strategies in a timely manner. For details, please see "Risk Management — Market Risk Management".

During the Track Record Period, our debt securities have been classified as financial investments at fair value through other comprehensive income, financial investments at fair value through profit or loss, or financial investment at amortized cost. For details, please see "Assets and Liabilities — Assets — Financial Assets — Distribution by Business Model and Cashflow Characteristics".

Rights to Earnings on Credit Assets

During the Track Record Period, rights to earnings on credit assets we invested mainly consisted of circulated credit asset products (信貸資產流轉產品). Generally, the assigning party, being the initial beneficiary, entrusts the trust companies or other qualified institutions (the "Trustee") as the trustee of the investment and the Trustee establishes the relevant rights on earnings on credit assets. The assigning party shall transfer the underlying assets to investors directly or through the China Credit Asset Registry and Exchange Co., Ltd., Guangdong Financial Assets Exchange and other platforms, and investors shall purchase such rights to earnings on entrusted credit assets and pay the relevant transfer price to the initial beneficiaries. During the retention period of the rights to earnings on credit assets, the borrower shall repay the principal and interest of the loans extended by the initial beneficiary, and the Trustee shall manage the repayment of the principal and interest of the entrusted credit assets, and pay the principal and interest to the investors upon agreed time according to the purchased shares of the relevant rights to earnings on credit assets. The underlying basic assets in such rights to earnings on credit assets primarily include leasing assets, personal consumption loans, automobile loans and credit loans.

For the circulated rights to earnings on credit assets of CCARE, the relationship among the parties is shown in the chart below:




As of December 31, 2018, 2019 and 2020 and March 31, 2021, the balance of our investment in rights to earnings on credit assets was RMB11,566.8 million, RMB7,694.2 million, RMB4,783.7 million and RMB4,362.2 million, respectively. For the years ended December 31, 2018, 2019 and 2020 and for the three months ended March 31, 2020 and 2021, the interest income from our investment in rights to earnings on credit assets was RMB500.8 million, RMB716.4 million, RMB151.5 million, RMB46.8 million and RMB13.9 million, respectively.

During the Track Record Period, all Trustees of our rights to earnings on credit assets were licensed to conduct their trust businesses under applicable laws and regulations. Our Bank conducts strict investigation of all investment products including financial condition of the initial beneficiary and takes into consideration whether there is shortfall payment or repurchase obligations undertaken by the initial beneficiaries or third-party guarantors when making investment decisions in rights to earnings on credit assets. The initial beneficiary generally has no payment or indemnification obligation against our Bank nor does our Bank have any other recourse against the initial beneficiary in case of default of the borrower, except in limited circumstances where such obligation has been expressly provided in the relevant transaction document. For details, please refer to "Risk Management — Credit Risk Management for Treasury Business—Credit Risk Management for Investment in Rights to Earnings on Credit Assets" in this prospectus.

During the Track Record Period, we kept downsizing our investment in rights to earnings on credit assets and the balance of which significantly decreased from RMB11,566.8 million as of December 31, 2018 to RMB4,362.2 million as of March 31, 2021. During the years ended December 31, 2018 and 2019, the borrowers of our rights to earnings on credit assets have not defaulted their payment obligation. During the year ended December 31, 2020 and the three months ended March 31, 2021, borrowers of our rights to earnings on credit assets with aggregate carrying value of RMB740.9 million and RMB736.3 million defaulted their payment obligation and our corresponding impairment allowances as at December 31, 2020 and March 31, 2021 amounted to RMB294.7 million and RMB463.7 million. As at the Latest Practicable Date, the actual losses arising from such default could not be ascertained since the relevant disposal/recovery procedures are still on-going. Such impairment allowances represented approximately 3.8% and 6.3% of the gross carrying value (i.e. without deduction of impairment allowances) of our rights to earnings on credit assets of RMB7,675.6 million and RMB7,384.7 million as at December 31, 2020 and March 31, 2021, respectively. Our Bank continuously monitors the credit risk of the products and may make disposal decision through our internal risk management procedures.

### Fund Investments

We invest in funds and the proceeds raised by our funds are used to invest in standardized debt securities or money market according to the nature of the funds. As of December 31, 2018, 2019 and 2020 and March 31, 2020 and 2021, our investments in funds were RMB6,423.5 million, RMB10,215.3 million, RMB20,496.9 million, RMB14,428.5 million and RMB22,358.5 million, respectively. For the years ended December 31, 2018, 2019 and 2020 and for the three months ended March 31, 2020 and 2021, dividend income generated from our fund investment were RMB223.8 million, RMB281.0 million, RMB400.8 million, RMB140.1 million and RMB52.5 million, respectively.

Fund Investments are subject to the supervision and regulation by the CSRC and other relevant regulatory authorities. The underlying assets of such funds are at fair value or amortized cost with their net value announced daily. All the fund companies operating such funds we invested in have the required qualifications for funds, as well as abundant management experience, and solid shareholders backgrounds. For details on risk management on our investment in funds, please see "Risk Management — Credit Risk Management for Treasury Business."

#### *Rediscounted Bills*

We engage in interbank rediscount of bank bills with other financial institutions to generate working capital and income from interest spreads. Bill rediscounting refers to transferring discounted or rediscounted bills prior to maturity among commercial banks and other financial institutions. The rediscounted bills business generates interest income and operating income from the difference between the maturity value of the bills and the price paid by the bank at the time of rediscounting. We offer interbank rediscount services such as bills buy-out, and bills sell-out. We rediscount bills in accordance with the regulations of PBoC. For the years ended December 31, 2018, 2019 and 2020 and three months ended March 31, 2020 and 2021, the interest income from our rediscount bills was RMB595.0 million, RMB578.7 million, RMB433.3 million, RMB125.6 million and RMB151.6 million, respectively, representing 6.1%, 4.9%, 3.6%, 4.0% and 4.8% of our total operating income for the same periods, respectively. As of December 31, 2018, 2019 and 2020 and March 31, 2021, the balances of our rediscounted bills were RMB19,183.7 million, RMB17,968.5 million, RMB25,442.8 million and RMB24,372.8 million, respectively.

As of March 31, 2021, all of our rediscounted bills were bank bills, which had lower risk than commercial bills. As we mainly focus on the qualification of accepting and discounting banks, we have engaged in such transaction with a variety of large and medium size financial institutions during the Track Record Period. We rediscount bills in accordance with the regulations of PBoC.

## PRICING

In compliance with applicable PRC regulatory requirements, we take into account various factors, including cost of funds, management costs, risk exposure and expected yield in pricing or repricing based on our established pricing mechanism. We also evaluate the overall market conditions, pricing for similar products and services provided by our competitors. Our pricing policies are formulated and determined by Assets and Liabilities Management Committee at our head office. Our business units determine specific pricing for their products and services within their respective authorizations granted by our head office.

### Loans

Interest rates of our RMB-denominated loan are subject to regulations of PBoC. On July 20, 2013, PBoC removed the interest rate floor of 70% on loans from financial institutions and allowed financial institutions to set interest rates based on commercial considerations. We determine interbank interest rates through negotiation as such rates are generally not subject to the regulations of PRC regulatory authorities. In August 2019, PBoC announced the reform of the LPR determination system. Under the new system, the LPR will be quoted monthly on the basis of open market interest rates. According to the requirement of PBoC, commercial banks shall determine their loan rates with reference to the LPR and interest rates of floating rate loans shall also be determined accordingly. For details, please see "Supervision and Regulation — Pricing of Products and Services".

We categorize our customers before determining the pricing of loan products accordingly. We determine the pricing for our loan products based on a combination of many factors, such as the loan applicants' financial condition and credit rating, the loan applicants' industry, the nature and value of the collateral, the term of the loan, the intended use of loan proceeds and the prevailing market conditions. In such process of determination, we focus on the contribution brought by the customers to our businesses, credit risk and ROE after risk adjustment. We also take into consideration the funding cost, taxes, management expenses and expected rates of return.

### Deposits

Since October 24, 2015, PBoC has removed the interest rates cap on RMB-denominated deposits for financial institutions including commercial banks and allowed banks to set interest rates on such deposits based on commercial consideration. In addition, commercial banks currently are permitted to negotiate and determine the interest rates on foreign currency-denominated deposits. We may therefore offer our key corporate banking customers differentiated interest rates for their deposits based on PBoC prescribed rates as we deem appropriate. For some of our key customers, the actual interest rates on deposits could fluctuate around the nominal interest rate on deposits.

PBoC has also liberalized interest rates on interbank placings, and we determine such rates based primarily on the market interest rate. Our Assets and Liabilities Management Committee (資產負債管理委員會) is responsible for the review of our RMB-denominated deposit pricing policies.

### Fee-and-Commission-Based Products and Services

With respect to fee-and-commission-based products and services, we charge our service fee which consists of a fixed part and a floating part pursuant to our product manual. Please also see "Supervision and Regulation — Pricing of Products and Services".

## DISTRIBUTION NETWORK

### Overview

We provide our products and services through our distribution network which includes physical outlets and electronic banking channels.

#### *Branch and Outlet Network and Self-service Banking Facilities*

As of the Latest Practicable Date, our Bank had 505 outlets, including two branches, 37 tier-one sub-branches, 186 tier-two sub-branches and 280 offices. 501 of the 505 outlets are located in Dongguan with an average business coverage of approximately four to five sq.km., ranking the first in terms of the numbers of physical outlets among all the commercial banks in Dongguan. Pursuant to the Regulations on Administrative Matters of Small Rural Banks (《農村中小銀行機構行政許可事項實施辦法》) issued by CBIRC on December 26, 2019, our Bank is eligible for applying to establish branches, sub-branches as well as offices. When selecting locations of our outlets, we take into consideration various factors such as geographical location, the economic environment and competition in the relevant area.

Establishment of the aforesaid outlets shall be reviewed and approved by the relevant regulatory authorities. There are different conditions for the establishment of branches, sub-branches and offices. For details, please refer to "Supervision and Regulation — Licensing requirements — Establishment of outlets" in this prospectus. We establish a tier-one sub-branch for each of the township areas of Dongguan, which supervises the management of tier-two sub-branches and offices in the respective township area. As a local bank, our extensive outlet network is a key competitive strength and an important channel to maintain local connection with local Village Groups and SMEs. As of the Latest Practicable Date, there were 350 administrative Village Groups and 242 communities in Dongguan, and we had 501 outlets in Dongguan to provide local coverage.

The table below sets forth the average size and services provided by the Bank's outlets and respective numbers as of the Latest Practicable Date.

| | Number | Average Size (*sq.m.*) | Primary Services | Targeted Customers |
|---|---|---|---|---|
| Branch | 2[(1)] | 900 | assets, liabilities, intermediary and wealth management businesses, and full-functional outlets with the responsibility of management of outlets in their respective region | corporate customers; mid-to-high end retail customers; SMEs |
| Tier-one sub-branch | 37[(2)] | 1,170 | | |
| Tier-two sub-branch | 186 | 345 | liabilities, intermediary and wealth management businesses | retail customers; SMEs; merchants nearby; mid-to-high end retail customers nearby |
| Office | 280 | 250 | | |

*Notes:*

(1) Two branches are outside Dongguan, namely, Hengqin Branch in Guangdong Pilot Free Trade Zone (廣東自貿試驗區橫琴分行) and Nansha Branch in Guangdong Pilot Free Trade Zone (廣東自貿試驗區南沙分行).

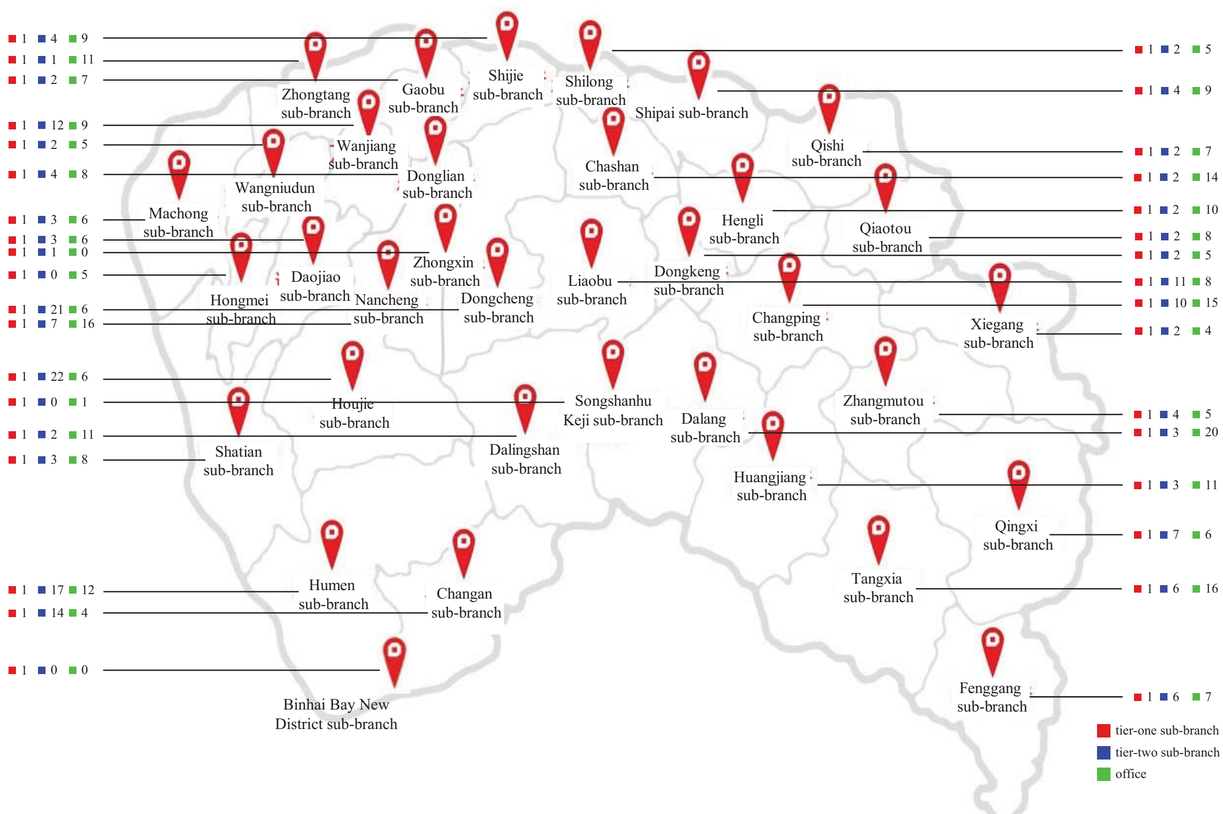
(2) Including two tier-one sub-branches outside Dongguan, namely, Qingxin Sub-branch (清新支行) and Huizhou Sub-branch (惠州支行).

As of the Latest Practicable Date, two outlets were recognized as "Thousand Excellent Outlet Civilized and Standardized Service in China Banking Industry (中國銀行業文明規範服務千佳單位)", three outlets were recognized as "5-Star Outlet", three outlets were recognized as "4-Star Outlet" and five outlets were recognized as "3-Star Outlet" by China Banking Association. We ranked the first in Dongguan in terms of the number of Star Outlets awarded for the past four years. In addition, as of the Latest Practicable Date, we had four outlets outside Dongguan jurisdiction, locating in the cities of Guangzhou, Zhuhai, Huizhou and Qingyuan in Guangdong Province, operated by our two branches and two sub-branches outside Dongguan. The table below sets forth the number of the outlets of our Bank as of the dates indicated.

| | As of December 31, | | | | | | As of March 31, | |
|---|---|---|---|---|---|---|---|---|
| | 2018 | | 2019 | | 2020 | | 2021 | |
| | Number | % of total | Number | % of total | Number | % of total | Number | % of total |
| Dongguan | 510 | 99.2% | 502 | 99.2% | 502 | 99.2% | 502 | 99.2% |
| Guangzhou | 1 | 0.2% | 1 | 0.2% | 1 | 0.2% | 1 | 0.2% |
| Zhuhai | 1 | 0.2% | 1 | 0.2% | 1 | 0.2% | 1 | 0.2% |
| Huizhou | 1 | 0.2% | 1 | 0.2% | 1 | 0.2% | 1 | 0.2% |
| Qingyuan | 1 | 0.2% | 1 | 0.2% | 1 | 0.2% | 1 | 0.2% |
| **Total** | **514** | **100.0%** | **506** | **100.0%** | **506** | **100.0%** | **506** | **100.0%** |

Moreover, as of March 31, 2021, our four county banks, namely, Huizhou Zhongkai Dongying County Bank, Yunfu Xinxing Dongying County Bank, Dongguan Dalang Dongying County Bank and Hezhou Babu Dongying County Bank had six, two, two and four outlets, respectively, and our two subsidiaries, namely, Zhanjiang RCB and Chaoyang RCB had 76 and 106 outlets, respectively.

As of the Latest Practicable Date, the distribution of tier-one sub-branches and number of tier-two sub-branches and offices of our Bank in Dongguan is illustrated in the map below.



As of the Latest Practicable Date, the distribution of branches or sub-branches outside Dongguan and our subsidiaries was illustrated in the map below.


Our self-service banking facilities include ATMs, self-service deposit and withdrawal machines, and other self-service terminal machines. These facilities provide 24-hour convenient and efficient self-services to customers such as balance inquiry, cash deposit and withdrawal, fund transfer, and payment of public utility bills, and have effectively reduced our operation costs. As of March 31, 2021, we had 123 ATMs and 1,050 self-service deposit and withdrawal machines.

***Electronic Banking Channels***

In 2008, we started to provide electronic banking services. Currently, our electronic banking channels provide comprehensive financial services through online banking, mobile banking, telephone banking and WeChat banking. As of December 31, 2018, 2019 and 2020 and March 31, 2021, we had approximately 3.6 million, 4.5 million, 5.5 million and 5.7 million customers who have established accounts through our electronic banking channels, respectively. As of March 31, 2021, we had approximately 192,700 corporate banking customers who have established accounts through our electronic banking channels. For the years ended December 31, 2018, 2019 and 2020 and for the three months ended March 31, 2021, the substitution rate of our electronic banking channels, namely, the ratio of the number of transactions processed through such channels to the number of our total transactions, was approximately 95.5%, 95.8%, 96.0% and 96.2%, respectively.

*Online Banking*

We provide 24-hour online banking services via our official website **www.drcbank.com** to our customers. For our corporate banking customers, through corporate online banking we provide a series of services including account management, fund transfer and remittance, payroll service, investment and wealth management, electronic bills, customer service, business management, international business, business application, intermediate business and business owner service, and through internet banking and cash management system for groups, we provide a series of services including account management, external payment, multi-level account books and cash sweep. For our retail banking customers, through online banking we provide a series of services including account management, fund transfer and remittance, recharge and bill payment, wealth management, loans, electronic slips and credit card services. Our Digital Finance Department is mainly responsible for: (i) provision of inter-district small loans through cooperation with third-party internet platforms such as third-party financial platforms; (ii) direct sales business launched in 2016, and D+Bank App officially launched in December 2018 which provide services including wealth management, deposits, loans and funds; and (iii) internet payment services.

As of March 31, 2021, we had a total of approximately 666,400 online banking customers, including approximately 138,700 corporate banking customers and approximately 527,600 retail banking customers. For the years ended December 31, 2018, 2019 and 2020 and for the three months ended March 31, 2021, the aggregate transaction volume processed through our online banking platform was RMB698,066.4 million, RMB734,946.6 million, RMB802,402.4 million and RMB225,325.6 million, respectively.

*Mobile Banking*

We commenced our mobile banking services in 2014. Through our mobile banking Apps, our customers may access a wide range of services including account inquiries and management, money transfer, purchase of personal wealth management products, application of personal loans, and payment services for utilities.

In January 2018, we launched our mobile banking service App for enterprises. In April 2018, we launched "Wallet Community (荷包社區)", an online-to-offline mobile App customized to scenarios in our customers' everyday life such as sales promotions, group-buying, online account top-up, mobile healthcare, and investments and wealth management. In November 2018, we launched membership-based private banking segment for high net-worth customers on our mobile Apps. In addition, we launched a series of products on our mobile apps such as "Card e-loan (卡e貸)" and "Village Easy Pay (村繳易)".

As of March 31, 2021, the cumulative number of our mobile banking users was approximately 3.1 million. As of March 31, 2021, approximately 4.9 million business transactions with a total transaction amount of RMB101,225.0 million were processed through our mobile banking. In 2017, "Wallet Community (荷包社區)" was awarded "Guangdong Province Best Proprietary Brand (廣東省最佳自主品牌)", an award jointly issued by Guangdong Enterprise Guild and Guangdong Entrepreneur Organization.

*WeChat Banking*

In 2014, we introduced our WeChat public platform. In June 2018, we introduced the function of account opening by appointment for enterprises on such WeChat platform. By following our WeChat official account and linking up their bank account to our WeChat banking services, our customers are able to utilize various services such as account management and locating nearby outlets. As of December 31, 2018, 2019 and 2020 and March 31, 2021, we had approximately 674,200 WeChat account subscriptions and 272,100 WeChat-bound accounts, approximately 873,100 WeChat account subscriptions and 386,500 WeChat-bound accounts, approximately 1,191,500 WeChat account subscriptions and 625,600 WeChat-bound accounts, and approximately 1,264,300 WeChat account subscriptions and 775,400 WeChat-bound accounts, respectively.

*Telephone Banking*

Since June 2008, we have provided our customers with telephone banking services 24-hour via our three customer service hotlines, namely, our general hotline, our credit card hotline, and our private banking hotline through both self-service and teller-operated services. Our telephone banking services include account inquiries and management, assistance with certain transactions, business inquiries, and emergency reporting on lost and stolen cards.

### Marketing

Our head office takes the initiative in formulating bank-wide business plans and marketing strategies, whereas each branch and sub-branch carries out implementation plans in their respective regions.

#### *Corporate Banking Marketing*

Our corporate banking customers are primarily local enterprises with its operations in the Pearl River Delta. We target the upstream and downstream enterprises in the supply chain of our existing customers. We conduct multi-layered marketing through various corporate banking departments, including the corporate business department, strategic client department and microfinance department. In addition, we maintain and grow our customer base in local Village Groups and SMEs leveraging our broad coverage of outlet network.

#### *Retail Banking Marketing*

We categorize our customers in accordance with their different asset size and reinforce their loyalty through various wealth management agency services and various value-added services of equity points. Through cooperation between our Private Banking Department and our other departments, we continuously introduce customized new products to attract high net-worth customers.

#### *Treasury Business Marketing*

In January 1999, we started operating in the interbank placement market. We have obtained various qualification to conduct relevant treasury business and provide comprehensive and diversified financing services.

## COUNTY BANKS

### Overview

As of March 31, 2021, we controlled and consolidated four county banks, namely Huizhou Zhongkai Dongying County Bank, Yunfu Xinxing Dongying County Bank, Dongguan Dalang Dongying County Bank and

Hezhou Babu Dongying County Bank. As of March 31, 2021, these four county banks had in aggregate approximately 161 corporate banking loan customers, 1,203 corporate banking deposit customers, 3,177 retail banking loan customers and 57,955 retail banking deposit customers, respectively. County banks are categorized as rural financial institutions. According to the Guidelines on Regulation of County Banks (Yin Jian Fa [2017] No. 52) (《村鎮銀行監管指引》(銀監發〔2017〕52號)) Article 8, county banks are allowed to operate the following businesses: deposit-taking, provision of short-term, medium-term and long-term loans, domestic settlement, bill acceptance and factoring, issuance of financial instrument, inter-bank financing, bank cards, acting as the agent of issuance and payment and underwriter of debt securities issued by the government, collecting and payment agent and insurance agent, trading of treasury bonds and financial bonds and other businesses permitted by the CBRC and its sub-ordinates.

**Financial Consolidation of Our County Banks**

We consolidate the financial statements of all these four county banks, including three in which we own 50% or more equity interest as our majority-controlled subsidiaries. The remaining one in which we own less than 50% equity interest is aligned with us through acting-in-concert agreement. For the basis of such consolidation for the preparation of the consolidated financial statements, please see "Appendix I — Accountant's Report — Summary of Significant Accounting Policies — Consolidated Financial Statements — Basis of Consolidation."

**Management of the County Banks**

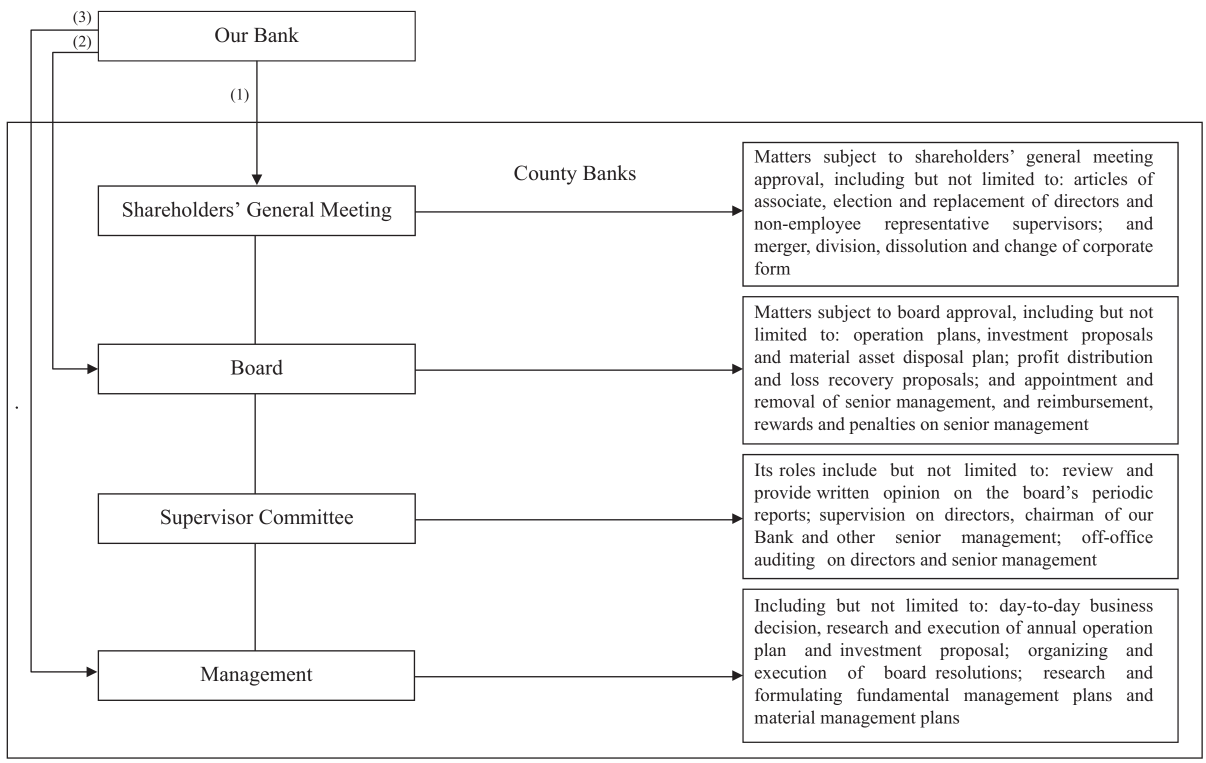
Each of our four county banks is our subsidiary and an independent legal entity regulated by CBIRC. All four banks use "Dongying (東盈)" as part of their company names for branding purposes. In compliance with the requirements of CBIRC, these four banks maintain autonomous operation. Each of our county banks is different in terms of its geographic locations, target market, customer base, and product offerings, with generally smaller business scale and offer fewer products and services compared to our Bank. We believe an autonomous operation business model enables the county banks to leverage their local networks and customer relationships, and to become more responsive to changes in their respective local markets.

All of the four county banks operate their business independently. However, the county banks entrust part of the management of their information technology system to us. In addition, we have deployed certain management personnel to participate in the operations of the county banks. As of March 31, 2021, the board of directors of each of Huizhou Zhongkai Dongying County Bank, Yunfu Xinxing Dongying County Bank, Dongguan Dalang Dongying County Bank and Hezhou Babu Dongying County Bank comprises a total number of five, five, six and five directors, respectively, of whom three, two, one and two of such directors were appointed by us, respectively. We also appointed certain senior executives of the four county banks. For Dongguan Dalang Dongying County Bank, of which our Bank held only 35% of the equity interest, our Bank effectively controls 51% of its voting rights through acting-in-concert agreement entered into with shareholders holding 16% of equity interest, who agree to vote as directed by our Bank. For details, please see "History, Development and Corporate Structure — Corporate Structure — Our Subsidiaries."

Although we do not directly participate in business operations of the four county banks, we manage these county banks through providing overall strategic guidance, monitoring the implementation of operating policies and participating in their decision-making processes that are of significance in their development. The directors appointed by us are responsible to supervise and strategically guide the operation of the banks and to participate in the decision making on important matters in relation to the development of the banks. Further, the senior executives that we appointed are responsible to participate in and oversee the implementation of the operational policies of the four county banks.

**Decision-Making Process of Our County Banks**

The following chart sets forth the management control of our county banks.




*Notes:*

(1) We hold the majority of voting rights, including through acting-in-concert agreement.

(2) We can appoint directors to the county banks, along with risk management personnel to guide and monitor the implementation of their risk management measures and processes by exercising the rights of shareholder. As of March 31, 2021, the board of directors of Huizhou Zhongkai Dongying County Bank, Yunfu Xinxing Dongying County Bank, Dongguan Dalang Dongying County Bank and Hezhou Babu Dongying County Bank comprised a total number of five, five, six and five directors, respectively, of whom three, two, one and two of such directors were appointed by us, respectively.

(3) We appoint senior executives to county banks to supervise the operation and management.

**Financial Contribution of Our County Banks**

The contribution of each of our county banks, as well as all of such banks in aggregate, represented an insignificant percentage to our consolidated financial statements.

The following table sets forth the percentage contribution of each county bank to our net interest income, net fee-and-commission income, operating income for the periods indicated.

| | For the years ended December 31, | | | | | | | | | For the three months ended March 31, | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2018 | | | 2019 | | | 2020 | | | 2021 | | |
| | Net interest income | Net fee-and-commission income | Operating income | Net interest income | Net fee-and-commission income | Operating income | Net interest income | Net fee-and-commission income | Operating income | Net interest income | Net fee-and-commission income | Operating income |
| | *(in percentages)* | | | | | | | | | | | |
| Huizhou Zhongkai Dongying County Bank | 1.1% | 0.0% | 0.8% | 0.6% | 0.0% | 0.4% | 0.3% | 0.0% | 0.2% | 0.3% | 0.0% | 0.3% |
| Yunfu Xinxing Dongying County Bank | 0.3% | 0.0% | 0.2% | 0.3% | 0.0% | 0.2% | 0.2% | 0.0% | 0.2% | 0.2% | 0.0% | 0.2% |
| Dongguan Dalang Dongying County Bank | 0.5% | 0.0% | 0.3% | 0.5% | 0.0% | 0.4% | 0.4% | 0.0% | 0.3% | 0.3% | 0.0% | 0.3% |
| Hezhou Babu Dongying County Bank | 0.6% | 0.0% | 0.5% | 0.4% | 0.0% | 0.4% | 0.4% | 0.0% | 0.3% | 0.4% | 0.0% | 0.3% |
| **Total** | **2.5%** | **0.0%** | **1.8%** | **1.8%** | **0.0%** | **1.4%** | **1.3%** | **0.0%** | **1.0%** | **1.2%** | **0.0%** | **1.1%** |

The following table sets forth the percentage contribution of each county bank to our total assets as of the dates indicated.

| | As of December 31, | | | As of March 31, |
|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 |
| | *(in percentages)* | | | |
| Huizhou Zhongkai Dongying County Bank | 0.4% | 0.2% | 0.2% | 0.2% |
| Yunfu Xinxing Dongying County Bank | 0.1% | 0.1% | 0.1% | 0.1% |
| Dongguan Dalang Dongying County Bank | 0.2% | 0.2% | 0.2% | 0.2% |
| Hezhou Babu Dongying County Bank | 0.2% | 0.2% | 0.2% | 0.2% |
| **Total** | **0.9%** | **0.7%** | **0.7%** | **0.7%** |

## SUBSIDIARY RURAL COMMERCIAL BANKS

### Zhanjiang RCB

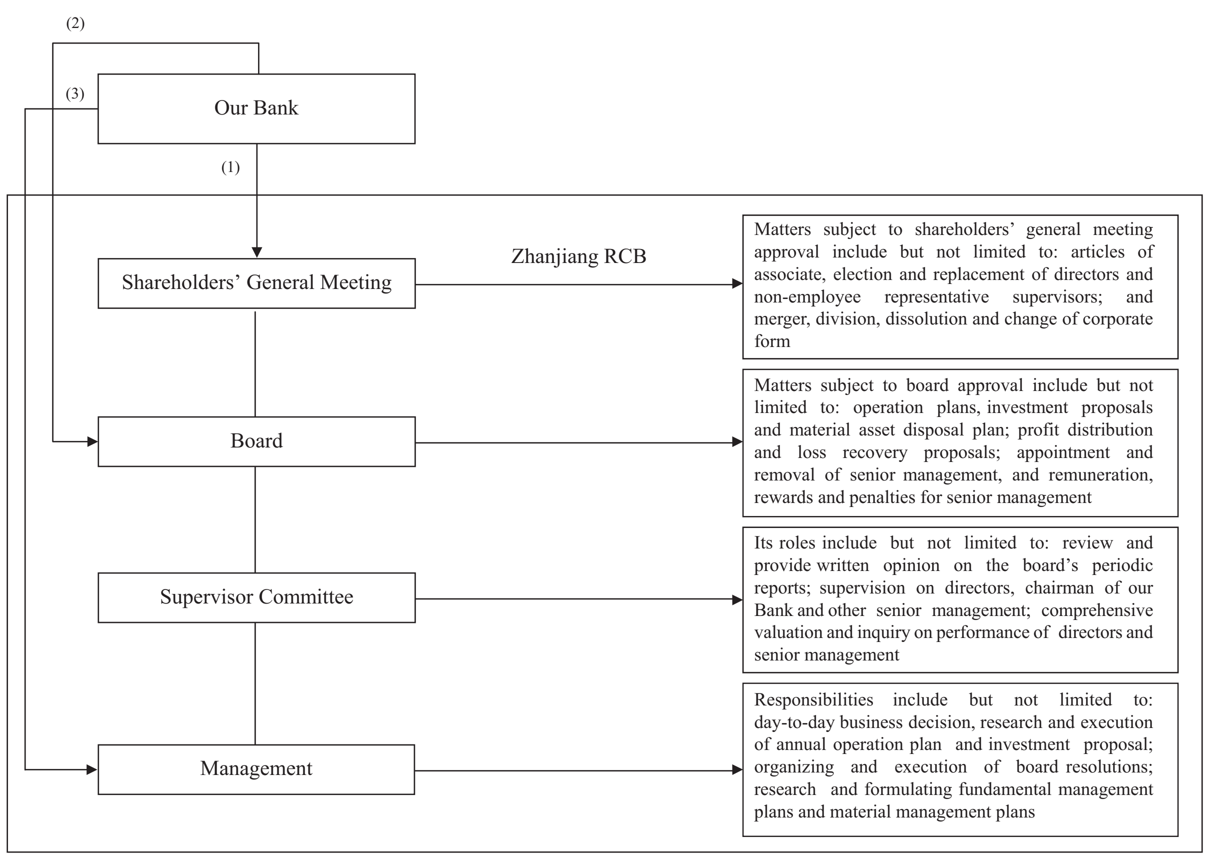
Zhanjiang RCB was established on October 26, 2019 to provide banking services mainly in the Chikan, Potou, Xiashan and Mazhang districts as well as the Economic and Technology Development Zone of Zhanjiang, Guangdong Province. As of the Latest Practicable Date, we hold 49.41% equity interest in Zhanjiang RCB and is its largest shareholder.

The financial results of Zhanjiang RCB are consolidated into our financial statements in accordance with IFRS 10. For the years ended December 31, 2019 and 2020 and for the three months ended March 31, 2021, its contribution to our net interest income, operating income and net profit were 1.27%, 6.75%, 6.55% and 0.98%, 5.82%, 5.52% and 0.12%, 4.88%, 2.39%, respectively. As of March 31, 2021, Zhanjiang RCB accounted for 5.23% of our total assets.

**Decision-Making Process of Zhanjiang RCB**

Zhanjiang RCB is an independent legal entity under the supervision of the CBIRC. By exercising the rights of a shareholder, we actively supervise the corporate governance, comprehensive risk management and capital management of Zhanjiang RCB. We appointed directors and senior management to participate in the daily management, decision making and operation of Zhanjiang RCB. As of the Latest Practicable Date, the board of directors of Zhanjiang RCB consisted of nine directors. We appointed one non-executive director of Zhanjiang RCB upon approval by its general shareholders' meeting. We appointed three senior management of Zhanjiang RCB upon approval by its board of directors, including one president, and two vice presidents. The directors appointed by us are responsible for supervising and strategically guiding the operation of Zhanjiang RCB and participating in the decision making on important matters in relation to the development of Zhanjiang RCB. In addition, the senior management that we appointed are responsible for overseeing the implementation of the operational policies of Zhanjiang RCB.

The following chart sets forth our control of Zhanjiang RCB based on which we consolidate Zhanjiang RCB.




*Notes:*

(1) As of the Latest Practicable Date, we held 49.41% of the voting rights.

(2) We can exercise our rights as shareholder to appoint directors of Zhanjiang RCB.

(3) We appoint senior management to Zhanjiang RCB to supervise its management and operation.

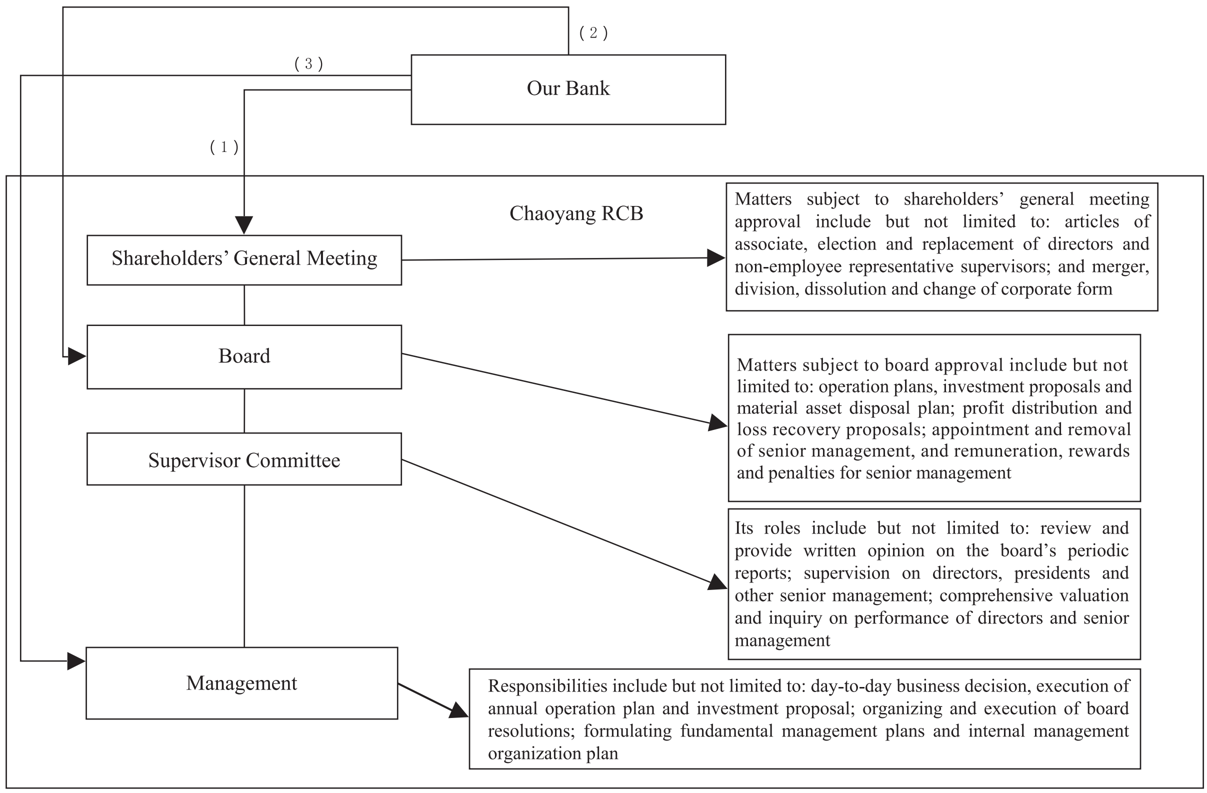
**Chaoyang RCB**

To take advantage of Guangdong Provincial Government's policy to establish rural commercial banks and to implement of our strategy to solidify our leading position in the Greater Bay Area, we made strategic investment, including equity investment, in Chaoyang RCCU and facilitated its restructuring into Chaoyang RCB. The reformation of Chaoyang RCCU commenced in the second half of 2020. After due consideration and strategic analysis, we believed that investment in Chaoyang RCCU will consummate our strategic positioning where our main operations and headquarters in the Greater Bay Area are fledged and supplemented by Chaoyang RCB and Zhanjiang RCB, which are located in the regional centers of Guangdong east and Guangdong west, respectively. Such positioning can help us implement our strategic objective of developing into a regional modern rural commercial banking group, facilitate our strategy of serving regional economy by extending services to Sannong entities and SMEs in Shantou area, and achieve expansion of geographic coverage of our business. In December 2020, we purchased through public tender and for the total consideration of RMB3,068.5 million the rights to earning of certain underlying assets, which were previously acquired from Chaoyang RCCU by an independent third party through public tender. Subsequently, we purchased 67.03% equity interest of Chaoyang RCB for a total consideration of RMB1,817.7 million. As of the Latest Practicable Date, our Bank held 67.03% equity interest in Chaoyang RCB and was its largest shareholder. For more details, please see "History, Development and Corporate Structure — Material Acquisition during the Track Record Period — Establishment of Chaoyang RCB".

Chaoyang RCB was consolidated into the financial statements of our Group since December 27, 2020. As of the consolidation date, the loans to customers, deposits from customers and total assets of Chaoyang RCB amounted to RMB3,615.3 million, RMB29,657.9 million and RMB32,748.9 million, respectively. The loan to deposit ratio of Chaoyang RCB was 12.2%. We believe that there is large growth potential for loans to customers, which can provide support for profit growth. According to the relevant statistics of the Chaoyang Sub-branch of PBoC, as of March 31, 2021, RMB-denominated deposits and loans to customers of Chaoyang RCB accounted for approximately 26.57% and 20.35% of the total RMB-denominated deposits and loans to customers of all the banking institutions in Chaoyang District and Chaonan District of Shantou, respectively. Chaoyang RCB has 106 outlets in Chaoyang District and Chaonan District in Shantou. For the three months ended March 31, 2021, contribution of Chaoyang RCB to our net interest income, operating income and net profit were 2.57%, 2.29% and 3.25%, respectively. As at March 31, 2021, the total assets of Chaoyang RCB represented 5.88% of the total assets of our Bank.

**Decision-Making Process of Chaoyang RCB**

Chaoyang RCB is an independent legal entity under the supervision of the CBIRC. By exercising the rights of a shareholder, we actively supervise the corporate governance, comprehensive risk management and capital management of Chaoyang RCB. We appoint directors and senior management to participate in the daily management, decision making and operation of Chaoyang RCB. As of the Latest Practicable Date, the board of directors of Chaoyang RCB consisted of nine directors. We appointed three persons as its non-executive director upon approval by its general shareholders' meeting. We appointed three persons as Chaoyang RCB's senior management upon approval by its board of directors, including one president, and two vice presidents. The following chart sets forth our control over Chaoyang RCB through which we consolidate Chaoyang RCB.




*Notes:*

(1) As of the Latest Practicable Date, we hold 67.03% of the voting rights.

(2) We can exercise our rights as shareholder to appoint directors of Chaoyang RCB.

(3) We appoint senior management members to Chaoyang RCB to supervise its management and operation.

## INFORMATION TECHNOLOGY

We rely on our information technology system covering key functions of our operation, including business innovation, transaction processing, customer services, risk management and financial management. Such system has continuously improved the efficiency of our services and management, customer experience and risk management capability. We have invested and will continue to invest in the development, maintenance and upgrading of our information technology systems. For the years ended December 31, 2018, 2019 and 2020 and for the three months ended March 31, 2021, our total expenditure in the procurement and maintenance of information technology equipment, systems and related software and hardware was RMB157.5 million, RMB362.9 million, RMB404.9 million and RMB195.3 million, respectively.

### Information Technology Management and Team

There are three centers under our Information Technology Department:

- The Management Center is primarily responsible for infrastructure management, supply management, information security, formulating information technology management policies, employee training, and equipment procurement;

- The R&D Center is primarily responsible for R&D of our information technology system, including R&D of new project and optimization of existing information functionalities; and

- The Operation & Maintenance Center is primarily responsible for operation and maintenance of information technology infrastructure and internet systems of our data center and branches.

**Information Technology System**

Through continuous development, integration and optimization, as of March 31, 2021, our IT system consisted of approximately 124 information systems covering traditional banking business, internet financing, mobile payment, risk alert, international settlement and electronic service channel. The system is operated by three centers, namely the management center, operation center and R&D center. These systems are divided into five major layers including channel management, customer management, product management, decision-making and analyzation, and unified infrastructure support.

The channel management layer provides financial services to our customers through various channels such as counters at our outlets, self-service facilities such as ATM and self-service deposit and withdrawal machines, mobile banking, online banking, WeChat banking and D+ Bank APP. The customer management layer, in response to the needs of intelligent identification and marketing, relationship management, wealth management and cash management, conducts marketing based on analyzation of customer profiles, and provides wealth layer for customers and cash management service for enterprises. Our product management system provides application services covering all of our business segments such as loans and credits, credit cards and debit cards, wealth management and intermediate business. Our decision-making and analyzation layer supports our management with timely and accurate analyzation of our risks, performance, finance and compliance status through centralized integration, storage, processing and analysis of our business data. The unified infrastructure support layer provides unified support at the infrastructure level, such as unified customer view and big data basic platform.

We have implemented a variety of security measures to ensure the reliability of our operation systems. We have established a master data center in Dongcheng District (東城區), Dongguan, a same-city disaster backup center for application and data in Tangxia Town (塘廈鎮), Dongguan, and remote-location data disaster backup center in Shanghai, respectively, to protect our business continuity. As of the Latest Practicable Date, no material data loss, system restoration failure or other major accidents and failures have occurred.

**PERSONAL DATA AND PRIVACY PROTECTION**

We collect certain personal data from our customers in connection with our business and operations, and adopted policies on collection of personal data and privacy protection according to relevant laws and regulations in the PRC. When collecting personal data, we follow the principles of authenticity, validity, integrity, consistency and confidentiality. Upon obtaining consent from the customers, we may collect different types of personal data in the course of our business operation, including, (i) identity information (such as the name, gender, nationality, photo, marital status, family status, residence domicile, habitual domicile, contact method, occupation, workplace as well as the type, number and maturity date of personal identity document); (ii) property information; (iii) account information (such as personal income, account number, and account open date and branch, account balance and transaction information); (iv) credit profile; and (v) other information that reflects the specific situation of certain customers. The provisions in the agreement entered into with our customers expressly specify the authorized scope and conditions for the use of personal data of customers.

These personal data are collected in accordance with our internal policies and guidelines and depending on the types of business and transaction, are usually stored for at least five years. We have formulated strict customer personal data protection policies and implemented a series of internal control measures accordingly. To reduce the risk of data loss or leakage, we encrypt important user data in the course of network transmission, and backup the data regularly and conduct data restoration drills at least once a year.

As the owner of the information collected from customers, we have the obligation to keep all personal data collected confidential. Unless otherwise required by laws or authorized by the customers, we shall not share or transfer any personal data to third parties. In addition, we have strengthened the daily management and monitoring of external cooperation entities regarding the protection of customers' personal data by entering into legal documents, such as confidentiality agreement or clause.

## IMPACT OF COVID-19

### Overview

Since the outbreak of COVID-19, draconian measures including travel restrictions have been imposed in major cities in the PRC, as well as other countries and territories, in an effort to contain the outbreak of COVID-19. We adopted appointment-based financial service schemes during the initial strict epidemic prevention and control period and fully resumed normal business operations since March 2020.

In response to various notices by the relevant government authorities and to support the economy, our Group has extended the due date of repayment of the principal and offered a grace period of up to 20 days for interest repayment of certain loans to our customers. For details, please see the sub-paragraph "Deferral of principal and interest repayment" below. On the other hand, taking benefit of PBoC's policy in providing liquidity to promote resumption of production through relending and rediscount, our Group has applied to the PBoC for relending which amounted to RMB4.3 billion as of March 31, 2021 and pledged local government bonds with market value of RMB5.2 billion held by us to the PBoC, resulting the realizable financial assets of our Group reduced by RMB5.2 billion. Relending and rediscount are two policy tools in achieving the monetary policies of the PBoC and are mechanisms for commercial banks to obtain cash from the PBoC. In this context, relending refers to the loans granted by the PBoC to commercial banks in the PRC which may further lend such funds to its customers and rediscount refers to the PBoC acquiring discounted commercial acceptance bills and bank acceptance bills (or similar instruments) held by commercial banks at a discounted rate determined by the PBoC (which reflects the cost of such fund) to provide liquidity to commercial banks, which generally includes an obligation to repurchase such promissory note by the commercial bank. As a result of the extension of principal repayment due date and pledging of local government bonds, our liquidity ratio as at March 31, 2021 has been reduced by 3.2 percentage points to 74.7%, which remained above the minimum regulatory requirement of 25%.

We will continue to monitor the development of COVID-19, and in particular implementation of fiscal and monetary policies by the PRC and/or foreign governments which may bring downward adjustments in market interest rates, and the challenges to the overall business and economic conditions brought by the COVID-19 epidemic. For the risks associated with COVID-19, please see "Risk Factors — Risks Relating to Our Business — The recent outbreak of the contagious COVID-19 in the PRC and worldwide may have an adverse effect on our business, financial condition and results of operations" in this prospectus.

***Deferral of Principal and Interest Repayment***

To mitigate the adverse impact on the economy caused by the COVID-19 outbreak, the PRC government has promulgated a number of Deferral Notices at different points of time to encourage banking and financial institutions to extend credit support to enterprises and individual affected by the epidemic, which include:

- the March 2020 Notice which provides that banking institutions may, (i) in respect of loans to micro, small and medium enterprises (including industrial and commercial sole proprietors and owners of micro and small enterprises), extend the due date of (a) principal due since January 25, 2020 and (b) interest due between January 25, 2020 and June 30, 2020, to a date not later than June 30, 2020 upon receiving application from the enterprise, after taking into consideration of the impact of COVID-19 and the operating condition of the relevant enterprise ("**Category I Extension**"); and (ii) in respect of micro, small and medium enterprises that are severely affected by COVID-19 with long recovery cycle but good development prospects, further extend the repayment deadline by negotiation ("**Category II Extension**");

- the June 2020 Notice which provides that banking institutions may (i) extend the due date of principal and interest of inclusive loans to micro and small enterprises (普惠小微企業貸款) (including loans to micro and small enterprises below or equal to RMB10.0 million per customer, industrial and commercial sole proprietors and direct and indirect owners of micro and small enterprises) due between June 1, 2020 and December 31, 2020 to a date not later than March 31, 2021 upon receiving application from the enterprise, after taking into consideration of the impact of COVID-19 and the operating condition of the relevant enterprise ("**Category I Extension**"); and (ii) in respect of other micro, small and medium enterprise loans and loans to large scale foreign trade companies with special difficulties, may extend the repayment deadline by negotiation ("**Category II Extension**");

- the December 2020 Notice which provides that principal and interest of inclusive loans to micro and small enterprises due between January 1, 2021 and March 31, 2021 shall be extended by negotiation between the bank and the relevant borrower based on the principle of "due extension (應延盡延)"; and

- the March 2021 Notice which provides that principal and interest of inclusive loans to micro and small enterprises due between April 1, 2021 and December 31, 2021 shall be extended by negotiation between the bank and the relevant borrower based on the principle of "due extension (應延盡延)".

Pursuant to these Deferral Notices and having considered the financial position of our Group, our Group has approved the extension arrangements of 925 loans in the form of extending the repayment due date or granting a new loan to repay the existing loan to borrowers that we considered to have repayment ability which may be temporarily affected by the COVID-19 epidemic. However, due to risk management consideration, we only approved the deferral application of loans that were not classified as NPL at the time of application and, except for a limited number of deferral application, we generally only allow extension once per loan.

In addition, in response to the appeal for providing support to the economy and the community during COVID-19, we have proactively offered a grace period of up to 20 days for interest repayment in respect of our loans to micro, small and medium enterprises.

The table below summarized the principal extension granted and grace period on interest payment provided by our Group and their respective subsequent settlement as of June 30, 2021:

| | **March 2020 Notice[1]** | | **June 2020 Notice[1]** | | **December 2020 Notice** | **March 2021 Notice** | **In aggregate** |
|---|---|---|---|---|---|---|---|
| | **Category I Extension** | **Category II Extension** | **Category I Extension** | **Category II Extension** | | | |
| **Principal extension** | | | | | | | |
| Range of extended due date | On or before June 30, 2020 | Between July 1, 2020 and June 30, 2023[2] | On or before March 31, 2021 | Between April 1, 2021 and September 30, 2025[3] | Between April 1, 2021 and March 31, 2024[4] | Between July 1, 2021 and June 30, 2028[5] | On or before June 30, 2028 |
| *Number of loans* | | | | | | | |
| First deferral under the Deferral Notices | — | 105 | 30 | 144 | 392 | 254 | 925 |
| Further deferral under the Deferral Notices | — | — | — | 3 | 20 | 18 | 41 |
| **Total** | **—** | **105** | **30** | **147** | **412** | **272** | |
| *Amount of deferral (in millions of RMB)* | | | | | | | |
| First deferral under the Deferral Notices | — | 913.2 | 62.0 | 1,123.6 | 178.6 | 164.4 | 2,441.8 |
| Further deferral under the Deferral Notices | — | — | — | 19.0 | 64.7 | 49.6 | 133.3 |
| **Total** | **—** | **913.2** | **62.0** | **1,142.6** | **243.3** | **214.0** | |
| *Settlement status as of June 30, 2021 (in millions of RMB, except percentage)* | | | | | | | |
| Repaid[6] | — | 629.0 | 37.0 | 248.8 | 10.2 | 3.7 | 795.4[7] |
| Outstanding[6] | — | 284.2 | 25.0 | 893.8 | 233.1 | 210.3 | 1,646.4 |
| Percentage of repayment[6] | — | 68.9% | 59.7% | 21.8% | 4.2% | 1.7% | 32.6% |
| Amount overdue | — | 3.8 | 25.0 | 2.0 | 0.5 | — | 31.3 |
| **Grace period of up to 20 days on interest payment** *(in millions of RMB, except number and percentage)* | | | | | | | |
| Number of loans | 1,491 | — | 9,723 | — | — | — | 11,214 |
| Amount | 14.8 | — | 157.2 | — | — | — | 172.0 |
| Repaid | 14.5 | — | 156.6 | — | — | — | 171.1 |
| Amount overdue | 0.3 | — | 0.6 | — | — | — | 0.9 |
| Percentage of repayment | 98.0% | — | 99.6% | — | — | — | 99.5% |

*Notes:*

1. Although principals due in June 2020 are covered by both the March 2020 Notice and the June 2020 Notice, such deferrals were considered as deferred under the June 2020 Notice.
2. Details of extended due dates of loans (based on due date of the last instalment in case of instalment loans) extended under Category II Extension of March 2020 Notice are as follows: (i) four loans with aggregate principal amount of RMB21.9 million extended to 2020; (ii) 93 loans with aggregate principal amount of RMB613.3 million extended to 2021; (iii) nil loan extended to 2022; and (iv) eight loans with aggregate principal amount of RMB278.0 million extended to 2023.

3. Details of extended due dates of loans (based on due date of the last instalment in case of instalment loans) extended under Category II Extension of June 2020 Notice are as follows: (i) 76 loans with aggregate principal amount of RMB361.2 million extended to 2021; (ii) 22 loans with aggregate principal amount of RMB363.0 million extended to 2022; (iii) 44 loans with aggregate principal amount of RMB414.8 million extended to 2023; (iv) one loan with principal amount of RMB0.1 million extended to 2024; and (v) four loans with principal amount of RMB3.5 million extended to 2025.
4. Details of extended due dates of loans (based on due date of the last instalment in case of instalment loans) extended under December 2020 Notice are as follows: (i) four loans with aggregate principal amount of RMB6.0 million extended to 2021; (ii) 80 loans with aggregate principal amount of RMB128.0 million extended to 2022; (iii) 33 loans with aggregate principal amount of RMB35.3 million extended to 2023; and (iv) 295 loans with principal amount of RMB74.1 million extended to 2024.
5. Details of extended due dates of loans (based on due date of the last instalment in case of instalment loans) extended under March 2021 Notice are as follows: (i) eight loans with aggregate principal amount of RMB30.4 million extended to 2021; (ii) 50 loans with aggregate principal amount of RMB112.6 million extended to 2022; (iii) four loans with aggregate principal amount of RMB9.3 million extended to 2023; (iv) 207 loan with principal amount of RMB58.2 million extended to 2024; (v) nil loan extended to 2025, 2026 and 2027; and (vi) three loans with principal amount of RMB3.5 million extended to 2028.
6. The loan would be deemed to have been repaid under the initial category if the loan has been further extended.
7. The amount does not equal to the arithmetic sum of the figures on the left columns since certain loans have been deferred more than once.

Notwithstanding the extension of the principal due date, we continue to monitor the quality of such loans in the same manner as other loans granted by our Bank in accordance with our loan classification system and appropriate adjustments will be made to the classification of the relevant loans when necessary. However, given we have granted a deferral, such loans were not considered to have defaulted at their respective original due date and we consider the future repayment ability of the relevant borrower when conducting the loan classification assessment. As at June 30, 2021, out of the outstanding balance of RMB1,646.4 million of principal extended, RMB103.0 million were classified as NPLs.

Taking into account of the amount involved under the Deferral Notices, the outstanding amount as at June 30, 2021, the overdue amount of RMB31.3 million as at June 30, 2021, our Directors are of the view that the deferral arrangement disclosed above has no material adverse impact on our loan portfolio and asset quality, financial results or business operations and loans recoverability. In addition, no event had occurred that would materially and adversely affect the information shown in the Accountant's Report as set out in Appendix I to this prospectus.

***Supportive Measures***

In prompt response to the relevant supportive policies, we launched various supportive measures, including "Sixteen Financial Service Measures by Dongguan Rural Commercial Bank to Help Enterprises Resume Work and Production (《東莞農商銀行助企復工復產十六條金融服務措施》)", to qualified enterprises and individuals engaged in epidemic prevention and control industries such as medical and pharmaceutical, wholesale and retail, hospitality and catering, logistics and transportation, with a particular focus on SMEs with good business prospects and credit history who are severely affected by the COVID-19.

We set up problem-solving working group to support the affected entities through cooperation between the head office and the branches, implemented a 24-hour demand response mechanism, and implemented the "Three No Policies (三不政策)", namely, no early collection of loans, no cessation of loans and no delay in granting loans based solely on temporary difficulties in operation due to the pandemic, for existing customers with good business prospect. We provide bespoke solution for SMEs addressed to their respective situations and different needs, and made adjustment for repayment schedules such as adjusting monthly repayment to quarterly repayment and granted extension to loans based on our assessment on the repayment capacities of the borrowers, so as to mitigate the financial pressure of enterprises.

During the epidemic, as a rural commercial bank based in Dongguan, we continued to support Sannong in Dongguan. The balance of our Sannong-related loans increased from RMB24.8 billion as of January 1, 2020 to RMB28.8 billion as of December 31, 2020, involving 692,745 loans, including 692,235 loans with an aggregate balance of RMB24,763.4 million extended to farmers, 376 loans with an aggregate balance of RMB3,790.0 million extended to urban enterprises and various organizations and 134 other Sannong-related loans with an aggregate balance of RMB276.3 million. The balance of our Sannong-related loans further increased to RMB32.3 billion, involving 668,232 loans, as of March 31, 2021, including 667,677 loans with an aggregate balance of RMB26,716.1 million extended to farmers, 400 loans with an aggregate balance of RMB5,271.8 million extended to urban enterprises and various organizations and 155 other Sannong-related loans with an aggregate balance of RMB287.5 million. Such loans effectively supported the local agricultural and economic development. Certain Sannong borrowers have also been granted deferral arrangements as disclosed in the sub-paragraph headed "Deferral of Principal and Interest Repayment" above, which amounted to 345 loans with aggregate principal amount of RMB495.0 million of first deferral as of June 30, 2021, among which six loans with aggregate principal amount of RMB26.9 million have been further deferred under the Deferral Notices, while deferred interests amounted to RMB17.3 million. As at June 30, 2021, the outstanding amount under the principal deferral arrangement was RMB356.2 million while all the aforementioned deferred interests have been repaid.

## AWARDS

During the Track Record Period, we received various awards, including:

- January 2021 — "Top 100 Excellent Proprietary Clearing Dealers in the 2020 Comprehensive Evaluation of ChinaBond Members (2020年度中債成員綜合評定結算100強優秀自營商)" by China Central Depository & Clearing Co., Ltd.;
- January 2021 — "2020 Active Traders of the Inter-bank RMB Market (2020年度銀行間本幣市場活躍交易商)" by the National Inter-bank Funding Centre;
- November 2020 — "Socially Responsible Bank with Excellent Competitiveness of 2020 (2020卓越競爭力社會責任銀行)" awarded by China Business (中國經營報);
- October 2020 — "2020 China Gold Tripod Award of Annual Special Contribution to Local Economy) (2020中國金鼎獎年度支持地方經濟特別貢獻獎)" awarded by National Business Daily (每日經濟新聞);
- October 2020 — "2020 China Top 500 Enterprises of Service Industry (2020中國服務業企業500強)" jointly awarded by China Enterprise Confederation (中國企業聯合會) and China Entrepreneurs Association (中國企業家協會);
- September 2020 — "Private Enterprise with Outstanding Rural Financial Services in China" (全國農村金融優秀服務民營企業機構) awarded by China Co-operation Times (中華合作時報) and China Finance Magazine (中國金融雜誌社);

- July 2020 — Ranked 267th in the world and 44th in China among the "Top 1000 Banks in the World" by the Banker, an United Kingdom magazine;
- January 2020 — "2019 Top Ten Rural Commercial Banks Retail Award (2019年十佳農商銀行零售獎)" awarded by the Panel of Retail Finance Journal (零售金融雜誌評選委員會);
- December 2019 — "Inclusive Finance Bank with Excellent Competitiveness (卓越競爭力普惠金融銀行)" of 2019 by China Business (中國經營報);
- September 2019 — "Best Rural Commercial Bank (最佳農商銀行)" by Sina Finance;
- August 2019 — "Exceptional SME Financial Service Bank for Financial Technology in Banking Industry for 2019 (銀行業金融科技2019年優秀小微金融服務銀行)" by Xinhua Net;
- August 2019 — "Exceptional Inclusive Financial Service Bank for Financial Technology in Banking Industry for 2019 (銀行業金融科技2019年優秀普惠金融服務銀行)" by Xinhua Net;
- August 2019 — "Top 500 Enterprises in Guangdong (廣東企業500強)" by Guangdong Provincial Federation of Enterprises and Guangdong Provincial Association of Entrepreneurs;
- February 2019 — Ranked 6th among urban and rural commercial banks in "Gyroscope" Evaluation System for 2018 (2018年"陀螺"評價體系之城區農商行第六名)" released by China Banking Association;
- February 2019 — "Outstanding Contribution to Poverty Alleviation for 2016-2018 (2016-2018年脱貧攻堅突出貢獻集體)" awarded by Guangdong Poverty Alleviation and Development Steering Committee;
- January 2019 — "Outstanding Performance in Mobile Payment (移動支付突出貢獻獎)" awarded by China UnionPay;
- January 2019 — "Top 300 Dealers in Interbank Money Market for 2018 (2018年度銀行間本幣市場交易300強)" by the China Foreign Exchange Trade System & National Interbank Funding Center;
- December 2018 — "Four Major Achievements (四類成果)" in the Study of Risk Management of Information Technology Application in Banking Industry awarded by the Senior Steering Committee of Risk Management of Information Technology of Banking Industry;
- October 2018 — "Innovative Wealth Management Bank of the Year (年度創新財富管理銀行)" under the Ninth Golden Tripod Award by National Business Daily;
- June 2018 — "Ten Best Bancassurance Providers of Guangdong (十優銀行保險業機構獎)" awarded by the Guangdong 100 Excellent Enterprises Selection Committee; and
- January 2018 — "Excellent Proprietary Institution (優秀自營機構獎)" by China Central Depository & Clearing Co., Ltd.

## COMPETITION

The banking industry in China has become increasingly competitive. The principal competitive factors in the banking industry include asset quality, product portfolio and prices, risk management, reach of distribution network and customer base, brand recognition and scope, service quality and information technology capabilities. We compete primarily with other financial institutions operating in Dongguan, including state-owned commercial banks, joint-stock commercial banks, city commercial banks and other rural financial institutions, which directly compete with us for customers, and deposits and loans. With the rapid development of capital markets in the PRC, we also face competition from non-banking financial institutions. For instance, micro-lending companies compete with us in respect of SME finance. In addition, internet financing companies are among our competitors. As compared to us, numerous competitors have advantages in one or multiple factors such as capital strength, number of national-level outlets and concentration of fiscal deposits from governmental entities.

In response to the increasingly intense competition and complicated development of the PRC and local banking industry, we are dedicated to solidify our current advantage of network coverage and customer base. For instance, we plan to leverage our recognition among the Village Groups and SMEs to develop our industrial finance, retail banking, SME finance, interbank finance and digital finance, further diversify our products and services, enlarge our customer base and enhance their loyalty, improve our information technology infrastructure and reinforce our leading position among commercial banks in Dongguan.

## EMPLOYEES

As of December 31, 2018, 2019 and 2020 and March 31, 2021, we had 5,456, 5,550, 5,670 and 5,656 full-time employees, respectively. Most of our employees are based in Dongguan.

The following table sets forth the number of our full-time employees by function and department as of March 31, 2021.

| | As of March 31, 2021 | |
|---|---|---|
| | Number of employees | % of total |
| Corporate banking business | 685 | 12.1% |
| Retail banking business | 2,411 | 42.6% |
| Treasury business | 78 | 1.4% |
| Finance, accounting and operation | 956 | 16.9% |
| Risk management, internal control and legal compliance | 608 | 10.8% |
| Information technology | 245 | 4.3% |
| Administrative management | 466 | 8.2% |
| Others | 207 | 3.7% |
| **Total** | **5,656** | **100.0%** |

The following table sets forth the number of our full-time employees by age as of March 31, 2021.

| | As of March 31, 2021 | |
|---|---|---|
| | **Number of employees** | **% of total** |
| Aged below 30 | 1,439 | 25.4% |
| Aged 31- 40 | 2,465 | 43.6% |
| Aged 41-50 | 1,363 | 24.1% |
| Aged over 50 | 389 | 6.9% |
| **Total** | **5,656** | **100.0%** |

The following table sets forth the total number of our full-time employees by education level as of March 31, 2021.

| | As of March 31, 2021 | |
|---|---|---|
| | **Number of employees** | **% of total** |
| Master's degree and above | 219 | 3.9% |
| Bachelor's degree | 4,611 | 81.5% |
| Associate degree or below | 826 | 14.6% |
| **Total** | **5,656** | **100.0%** |

We have established comprehensive training system to provide differentiated training for employees at various levels and positions. We offer senior and mid-level management annual training in a term of one or two weeks in cooperation with reputable universities in China. In addition, we provide annual training by departments to exceptional employees. We also allocate specific funds for professional training.

In compliance with the PRC laws and regulations, we contribute to our employees' social security and other benefits program including pension, medical insurance, unemployment insurance, work-related injury insurance, maternity insurance, housing allowances and corporate annuity.

We have a labor union established in accordance with PRC laws and regulations and the instructions from GDRC, which represents the interests of our employees and works closely with our management on labor-related issues. During the Track Record Period and up to the Latest Practicable Date, we had not experienced any strikes or other material labor disputes that affect our operations.

Apart from full-time employees, we had 465 dispatched workers employed by third-party labor dispatching agencies as of March 31, 2021. These dispatched workers are not our employees and generally do not hold key positions. We have not entered into any labor contracts with these dispatched workers. Instead, they have entered into labor contracts with third-party labor dispatching agencies. Therefore, we are not obliged to contribute social security funds for them according to the laws. However, in accordance with the employment agreements between us and the third-party agencies, we shall make payment for salaries, social security funds and other fees for such dispatched workers to the agencies, and the third-party agencies shall pay the salaries to the dispatched workers and contribute to the social security funds to relevant government authorities on behalf of the workers.

## PROPERTIES

We are headquartered at No.2, East Hongfu Road, Dongcheng District, Dongguan, Guangdong Province, the PRC. As of the Latest Practicable Date, we owned 780 properties in the PRC with an aggregate GFA of approximately 654,083.9 sq.m. We also had 28 parcels of land in the PRC with an aggregate site area of approximately 198,604.5 sq.m. As of the Latest Practicable Date, we leased 687 properties in the PRC with an aggregate GFA of approximately 253,570.3 sq.m.

### Self-Owned Properties

As of the Latest Practicable Date, we owned 780 properties with an aggregate GFA of approximately 654,083.9 sq.m. Such properties were primarily used for our business and operation, including:

(i) 362 properties with an aggregate GFA of approximately 372,269.9 sq.m (accounting for 56.91% of the aggregate GFA of our self-owned properties), which we had obtained the building ownership certificates and state-owned land use right certificates for the land occupied by these properties through grant, and the building ownership certificate and the state-owned land use right certificate were registered under our name.

As advised by our PRC Legal Advisor, we have legitimate ownership of such properties and the land use right for the land occupied by such properties, and we are entitled to occupy, use, transfer, lease, create a mortgage on or by other means dispose of such properties according to applicable laws.

(ii) For the two properties with an aggregate GFA of 14,379.8 sq.m (accounting for 2.20% of the aggregate GFA of our self-owned properties), we had obtained the building ownership certificates and state-owned land use right certificates for the land occupied by these properties through grant. The building ownership certificates and/or the state-owned land use right certificate have not been registered under our name due to historical reasons. As of the Latest Practicable Date, we are actively negotiating with the competent authority for the alteration of name.

As advised by our PRC Legal Advisor, (a) for one of the two properties, we have obtained the building ownership certificate, and the building ownership certificate was registered under our name. Therefore, there are no material legal obstacles for us to occupy or use such property. However, the transfer, lease, mortgage and other means of disposal of the property are subject to restrictions until the completion of the registration of the change of ownership under the land use right certificate; (b) for the other property of such two properties, the occupation, use, transfer, lease, mortgage or other means of disposal of such property are subject to restrictions until the completion of the name alteration of building ownership certificate and land use right certificate.

(iii) For the 203 properties with an aggregate GFA of 141,203.2 sq.m (accounting for 21.59% of the aggregate GFA of our self-owned properties), we had obtained the building ownership certificates and the state-owned land use right certificates for the land occupied by such properties through allocation. The building ownership certificates and/or the state-owned land use right certificate of the 63 properties have not been registered under our name due to historical reasons. As of the Latest Practicable Date, we are actively negotiating with the competent authority for the alteration of name.

As advised by our PRC Legal Advisor, (a) in respect of 137 properties of the 203 properties, we have received the confirmation letters from the relevant governmental authority, which confirmed that there are no legal obstacles for us to occupy or use such properties. However, the transfer, lease and mortgage or other means of disposal of the properties on the allocated land are subject to restrictions until we have completed the alteration of name (if applicable) and acquired the land use right of the land on which the properties are erected through grant in accordance with the applicable laws; (b) in respect of the remaining 66 properties of the 203 properties, we may occupy, use, transfer, lease and mortgage or dispose the properties through other means after we have completed the alteration of name (if applicable) and acquired the land use right of the land on which the properties are erected through grant in accordance with the applicable laws.

(iv) For the four properties with an aggregate GFA of 2,004.6 sq.m (accounting for 0.31% of the aggregate GFA of our self-owned properties), we have obtained the building ownership certificates and land use right certificates of the collectively-owned lands. The building ownership certificates and/or the collectively-owned land use right certificate of three of the properties have not been registered under our name for historical reasons. As of the Latest Practicable Date, we are actively negotiating with the competent authority for the alteration of name.

As advised by our PRC Legal Advisor, (a) for one of the four properties, we have obtained the building ownership certificate and land use right certificate, and both certificates were registered under our name. There are no legal obstacles for us to occupy or use the property; (b) for the remaining three properties of the four properties, the occupation, use, transfer, lease, mortgage or other means of disposal of the properties are subject to restrictions until completion of the name alteration of the building ownership certificates and collectively-owned land use right certificates.

(v) For the 13 properties with an aggregate GFA of 9,934.4 sq.m (accounting for 1.52% of the aggregate GFA of our self-owned properties), we have obtained the building ownership certificate and land use right certificate, but the building ownership certificate and/or land use right certificate have not been registered under our name due to historical reasons. The land is unknown in nature. As of the Latest Practicable Date, we are actively negotiating with the competent authority for the name alteration and clarify the nature of the land.

As advised by our PRC Legal Advisor, the occupation, use, transfer, lease, mortgage or other means of disposal of the properties are subject to restrictions until the completion of the name alteration of building ownership certificates and land use right certificates and the acquisition of the land use right for the land through grant according to the applicable laws.

(vi) For the 73 properties with an aggregate GFA of 35,357.5 sq.m (accounting for 5.41% of the aggregate GFA of our self-owned properties), we have obtained the building ownership certificate but not the land use right certificate of the land on which the properties are located due to historical reasons. As of the Latest Practicable Date, we are in the process of application for the land use right certificates of such properties.

As advised by our PRC Legal Advisor, (a) for two out of the 73 properties which are registered under the names of third parties, we have not completed the name alteration of the state-owned land use right certificates of the properties and obtained the state-owned land use right certificates of the properties due to historical reasons, and the occupation, use, transfer, lease, mortgage or other means of disposal of the properties are subject to restrictions; (b) for the remaining 71 properties, as we have obtained the relevant building ownership certificates which were registered under our or our predecessor's name, there are no material legal obstacles for us to occupy or use such properties. However, before obtaining the state-owned land use right certificates granted, we may not freely transfer, mortgage or otherwise dispose of such properties. In the event that the land on which those properties are situated is sold or disposed of by the land use right holders, our properties will also be sold or disposed of in conjunction with such land. In this case, we may lose the ownership of such properties, but we will be entitled to the proceeds from the sale or disposal. Having considered that such properties are located in different areas, the possibility of all or most of the land use right and properties being sold or disposed of simultaneously is low.

(vii) For the 19 properties with an aggregate GFA of approximately 47,382.7 sq.m (accounting for 7.24% of the aggregate GFA of our self-owned properties), we had been granted the state-owned land use right certificates or collectively-owned construction land use right certificates but not the building ownership certificates due to historical reasons. Of which, two properties with an aggregate GFA of approximately 15,312.7 sq.m are situated on the land obtained through allocation, six properties with an aggregate GFA of approximately 8,485.1 sq.m are situated on collectively-owned land, and the state-owned land use certificate of nine properties with an aggregate GFA of approximately 6,668.1 sq.m does not record the nature of the land.

As advised by our PRC Legal Advisor, (a) for the two out of the 19 properties with GFA of approximately 16,916.9 sq.m situated on granted land, we may not legally occupy, use, transfer, lease, mortgage or by other means dispose of such properties until we have legally obtained the relevant building ownership certificate for such property; (b) for the two out of the 19 properties situated on the land obtained through allocation with an aggregate GFA of approximately 15,312.7 sq.m, we may not legally occupy, use, transfer, lease, mortgage or by other means dispose of such properties until we have legally obtained the relevant building ownership certificate for such properties and the land use right through grant; (c) for the six out of the 19 properties situated on the collectively-owned land with an aggregate GFA of approximately 8,485.1 sq.m, we may not legally occupy and use such properties until we have legally obtained the relevant building ownership certificate for such properties; and (d) for nine out of the 19 properties with an aggregate GFA of approximately 6,668.1 sq.m, we may not legally occupy, use, transfer, lease, mortgage or by other means dispose of such properties until we have legally obtained the relevant building ownership certificate for such properties and the land use right through grant.

(viii) For the 104 properties with an aggregate GFA of approximately 31,551.9 sq.m (accounting for approximately 4.82% of the aggregate GFA of our self-owned properties), we have not yet obtained the relevant building ownership certificates for these properties or land use right certificates for the land occupied by such properties.

As advised by our PRC Legal Advisor, we may not legally occupy, use, transfer, lease, mortgage or by other means dispose of such properties and land until we have legally obtained the building ownership certificates for these properties and the land use right certificates for the land occupied by such properties through grant or lease.

In Conclusion, as of the Latest Practicable Date, we are not aware of any disputes raised by any third parties on our occupation or use of the abovementioned properties. Furthermore, we are not aware of any applications for building ownership certificates of these properties from any third parties apart from us, and we have not been penalized by any governmental authorities for the use of the relevant properties.

In conclusion, as advised by our PRC Legal advisor, in the event that the above 418 properties with title defects are not or no longer available for use, we believe that we can promptly find other business premises in the vicinity and the relocation cost is relatively low when compared with our net asset value. Therefore, the above-mentioned properties with defects will not materially and adversely affect our business operations and financial position.

**Land Use Rights**

As of the Latest Practicable Date, apart from owning the land use rights of the abovementioned buildings, we owned or occupied the land use rights of 28 parcels of land with an aggregate area of approximately 198,604.5 sq.m. The details are as follows:

1. We have the land use rights of 15 parcels of land with an aggregate area of 77,908.6 sq.m. We had obtained the land use right certificates for the land occupied through lease.

   As advised by our PRC Legal Advisor, we have legitimate ownership of such land, and we are entitled to occupy, use, transfer, lease, create a mortgage on or by other means dispose of such land according to applicable laws. Among the 15 parcels of land, the construction works of eight parcels of land have not commenced for more than two years after the commencement date, in which: (i) the land use right certificates of three parcels of land were issued under the name of Zhanjiang RCB, our non wholly-owned subsidiary, for which the People's Government of Zhanjiang has issued confirmation, confirming that the formation of idle land of Zhanjiang RCB was due to historical reasons and that Zhanjiang RCB can continue to occupy and use the land and no fee for idling, recovery of the land or other penalty will be imposed; and (ii) the construction works of the remaining five parcels of land have not commenced for more than two years after the commencement date. In accordance with the requirements of the Measures on Disposal of Idle Lands (《閒置土地處置辦法》), the government at or above the county level may confiscate such land without compensation. As of March 31, 2021, the aggregate net book value of the land use rights of the five parcels of land is approximately RMB0.2 million, which is relatively low when compared with our net asset value. The above-mentioned risks have no material and adverse impact on our operation and financial position.

2. We have occupied 10 parcels of land with an aggregate area of 103,256.3 square meters and we have obtained the land use right certificates for these parcels of land.

   As advised by our PRC Legal Advisor, (i) with respect to one parcel of land with an area of 24,469.7 square meters, we may legally occupy, use, transfer, mortgage or by other means dispose such land when we register the change of ownership; (ii) with respect to three parcels of collectively-owned land with an aggregate area of 73,510.0 square meters, we may legally occupy, use, transfer, lease, create a mortgage on or by other means dispose of such land when we obtain the land use right certificates through grant or lease upon change of the land into state-owned land; and (iii) with respect to six parcels of land with an aggregate area of 5,276.6 square meters, Zhanjiang RCB has applied for the grant of state-owned land. Furthermore, we confirm that as of the Latest Practicable Date, we did not use the aforementioned land due to land planning and other reasons. The defect of legal title of such land has no material and adverse impact on our operation and financial position.

3. We have occupied three parcels of land with an aggregate area of approximately 17,439.6 square meters which we have not received the land use right certificates and the nature of land is undetermined.

   As advised by our PRC Legal Advisor, the net book value of such land use rights was nil as of the Latest Practicable Date. Furthermore, we confirm that as of the Latest Practicable Date, we had not developed such land. The defect of legal title of such land has no material and adverse impact on our operation and financial position.

In conclusion, as advised by our PRC Legal advisor, as for above-mentioned 13 parcels of lands with defects of land use rights, the net book value of such land use rights is relatively low when compared with our net asset value. Therefore, the defects of such land use rights will not materially and adversely affect our business operations and financial position.

**Leased Properties**

As of the Latest Practicable Date, we leased 687 properties with an aggregate GFA of approximately 253,570.3 square meters, which were primarily used for our business and office, among which:

1. For 145 properties with an aggregate GFA of approximately 59,797.7 square meters (accounting for approximately 23.58% of the aggregate GFA of our leased properties), the lessors had obtained the relevant building ownership certificates or consent letters from the owners to authorize the lessors to lease or sublease the specific properties.

   As advised by our PRC Legal Advisor, these lease agreements are legal and valid as the lessors have the right to lease out the properties, and we have right to use the above-mentioned leased properties within the term of the lease contract.

2. For 542 properties with an aggregate GFA of approximately 193,772.6 square meters (accounting for approximately 76.42% of the aggregate GFA of our leased properties), the lessors had not obtained the relevant building ownership certificates or consent letters from the owners to authorize the lessors to lease or sublease the specific properties. For 444 properties with an aggregate GFA of approximately 160,895.9 square meters (accounting for approximately 63.45% of the aggregate GFA of our leased properties), the lessors have issued written undertakings stating that the lessors are entitled to lease such properties, and the lessors shall indemnify us if we suffer losses from the defective titles of such properties resulting in us not being able to use these properties.

   As advised by our PRC Legal Advisor, if the lessors do not have the ownership of such properties or have not obtained the relevant documents from the owners of the properties to entitle them to sublease or authorize them to lease such properties, the leasing agreements may be deemed invalid. Our leasing of such properties may be affected, but we have the right to claim for indemnification by the lessors pursuant to their letters of undertaking under specific circumstances. As of the Latest Practicable Date, no third party has claimed the ownership of such properties. In addition, in the event that we are not able to continue to use such properties, we believe we will be able to find comparable properties which are legal to be leased out as alternatives in relevant areas, and such relocation will not have material adverse effect on our financial condition or our results of operations.

3. As of the Latest Practicable Date, we have entered into 687 lease agreements with third-parties. As of the Latest Practicable Date, two lease agreements have been filed application for registration with relevant housing administrative authorities (with an aggregate GFA of approximately 252.8 square meters, accounting for approximately 0.10% of the aggregate GFA of our leased properties). Pursuant to The Administrative Measures for Commodity House Leasing (《商品房屋租賃管理辦法》) and relevant regulations, the leasing of property must be registered. However, according to the Civil Code of the People's Republic of China (《中華人民共和國民法典》), the failure of registration of lease will not affect the legal effectiveness of the lease agreements. We are entitled to use these properties in accordance with the relevant property leasing agreements. However, if we fail to complete the lease registration in accordance with the requirements of the housing administrative authorities, we may be ordered by relevant authorities to make rectification in prescribed period or, failure of which, subject to fines ranging from RMB1,000 to RMB10,000. As of the Latest Practicable Date, we had not been subject to administrative penalties by the relevant housing administrative authorities for non-registration of lease agreements. The lessors of 263 lease agreements of the aforementioned leased properties have signed written undertakings. These lessors have undertaken that, if we are subject to fines by the housing administrative authorities due to the failure of filing of leasing agreements, they are willing and able to compensate for our economic losses.

   As advised by our PRC Legal Advisor, we can continue to use the properties without registration of the lease and our financial position and operation will not be materially and adversely affected.

4. As of the Latest Practicable Date, the lease agreements for one leased properties (with an aggregate GFA of approximately 546.0 square meters, accounting for approximately 0.22% of the aggregate GFA of our leased properties) out of aforementioned 687 leased properties have expired. We are handling relevant renewal procedures for these lease agreements. We would complete renewal procedures for above lease agreements as soon as possible. In the event that relocation is required, we believe we would be able to find comparable properties which are legal to be leased out as alternatives in relevant areas.

   As advised by our PRC Legal Advisor, the fact that we are handling relevant renewal procedures for those expired lease agreements will not have material adverse effect on our financial condition and our business operations, nor will it have any substantial impact on the public offering.

In conclusion, as advised by our PRC Legal advisor, the lessors of 444 leased properties out of above-mentioned 542 leased properties with defects have undertaken that, in the event that any leased properties are not available for use, they will compensate us for any loss caused thereby. If the remaining 98 leased properties are not available for use and relocation of such properties is required, the relocation cost is relatively low when compared with our net asset value. Therefore, the above-mentioned leased properties with defects will not materially and adversely affect our business operations and financial position.

### Property Evaluation

As of the Latest Practicable Date, we had no single property interest with a carrying amount of 15% or more of our total assets, and on this basis, we are not required by section 5.01A of the Listing Rules to include in this prospectus any valuation report. Pursuant to section 6(2) of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice, this prospectus is exempted from compliance with the requirements of section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, which requires a valuation report with respect to all of our interests in land or buildings.

## PERMITS, LICENSES AND QUALIFICATIONS

As of the Latest Practicable Date, we had obtained all the major approvals of all necessary and material licenses, approvals, permits and qualifications from relevant PRC authorities for our operations in China.

### Intellectual Property Rights

We operate under the name "Dongguan Rural Commercial Bank (東莞農村商業銀行)". As of the Latest Practicable Date, we owned 233 registered trademarks in the PRC and seven registered trademarks in Hong Kong. We are also the registered owner of the domain name, **www.drcbank.com**. Please see "Appendix VII — Statutory and General Information — 3. Further Information about Our Business."

## LEGAL AND REGULATORY MATTERS

### Legal Proceedings

We may be involved in various claims, litigations and arbitrations in the ordinary course of business from time to time. As of the Latest Practicable Date, we are not subject to any contingent liability in connection with the pending legal proceedings as a plaintiff or applicant with a principal amount of claim of more than RMB10.0 million. As of the Latest Practicable Date, there was no pending legal proceeding with principal amount over RMB10.0 million in which we are subject to the risk of contingent liabilities as a defendant.

As of the Latest Practicable Date, we were involved as plaintiffs or applicants in 202 pending litigations and arbitrations which have the single claim amount of more than RMB10.0 million. We have the right to sue on the related assets. The total claim amount of such legal proceedings was RMB6,482.0 million. Most of the 202 cases are actions and arbitrations in respect of recovering loans.

We believe that, in accordance with our loan provision policy, after taking into account relevant factors, including the recoverability of loans, we have made sufficient provisions in respect of our pending legal proceedings as plaintiff or arbitration applicant. For details on post-loan management and review of loans, please see "Risk Management — Credit Risk Management — Credit Risk Management of Corporate Loans" and "Risk Management — Credit Risk Management — Credit Risk Management of Personal Loans". As of the Latest Practicable Date, we, as plaintiff or applicant, anticipate that the outcome of any existing and pending legal or arbitral proceedings, individually or collectively, will not have a material and adverse effect on our business, financial condition and results of operations. Please also see "Risk Factors — Risks Relating to Our Business — We may be involved in legal and other disputes from time to time arising out of our operations".

As advised by our PRC Legal Advisor, since the total amount of disputes accounted for a relatively small percentage of our latest audited net assets and we were the plaintiff, such cases will not materially affect our operation. Based on the above factors, we believe that such litigations will not have a material and adverse effect on our business, financial condition, results of operations or prospects.

As of the Latest Practicable Date, we were not subject to any risk of contingent liabilities in any pending legal proceeding as defendants with underlying amount (principal) of more than RMB10.0 million.

**Regulatory Inspections and Proceedings**

We are subject to various regulatory requirements and guidelines promulgated by different PRC regulatory authorities, such as CBIRC, PBoC, NAO, SAT, SAMR, NDRC, SAFE and their respective local branches and offices. Inspections and examinations are carried out by such regulatory authorities regarding our compliance with the legal and regulatory requirements in relation to our business operations, risk management and internal control.

During the Track Record Period, we were in compliance with relevant regulatory requirements and guidelines relating to our business operations, risk management, tax compliance and internal controls in all material respects and there was no other regulatory inspection or proceedings that may cause material and adverse impact on our business operations or financial results.

***Administrative Penalties***

During the Track Record Period and as of the Latest Practicable Date, we had been subject to various administrative penalties imposed by the CBIRC, PBoC, SAMR, SAT and the agencies of other regulatory authorities, generally in the form of fines. There were 10 incidents which resulted in aggregate fines of RMB8.2 million, including, (i) one incident with aggregate fine of RMB2.4 million imposed on us due to inadequate management of related party transactions and failure to impose penalties for non-compliance such as failure to extend unified credit to group customers; (ii) four incidents with aggregate fine of RMB4.7 million imposed on Huizhou Zhongkai Dongying County Bank (惠州仲愷東盈村鎮銀行) due to improper deposits procurement, raising funds from companies through inter-bank channels and being unable to rectify for a long time, failure of risk control on related party transactions and other illegal acts; (iii) three incidents with aggregate fine of RMB0.2 million imposed on Hezhou Babu Dongying County Bank (賀州八步東盈村鎮銀行) due to failure to complete the tax declaration and submit the tax return for handicapped employment security fund in 2017 within the prescribed period; (iv) one incident with fine of RMB0.5 million imposed on us due to illegal acts such as failure to carry out verification by former Zhanjiang City Chikan District Rural Credit Cooperative Union* (湛江市赤坎區農村信用合作聯社), one of the constituting units of Zhanjiang RCB of identities of customers whose validity period of their identity cards were expired in accordance with applicable requirements; and (v) irregularity in the loan business of Chikan District Sub-branch (赤坎支行) and Economic and Technology Development District Sub-branch (經濟技術開發區支行) of Zhanjiang RCB in violation of requirement of prudent operation and was imposed fine of RMB0.5 million in total. We timely paid the fine in full and implemented remedial measures in respect of the above administrative penalties. None of our Directors or senior management was involved in the foregoing 10 administrative penalties during the Track Record Period.

As these penalties, individually or in aggregate, did not result in material adverse effect on the operation of our Bank and the aggregate amount of fines imposed account for an insignificant percentage of the net assets in our latest audited financial statement, our PRC Legal Advisor is of the view that these penalties have no material adverse effect on our operation.

According to the inspection opinions and penalty decisions of CBIRC and its agencies, the Bank has adopted the following rectification measures: (i) revising relevant systems including Rules of Procedure of the Related Party Transaction Control Committee of the Board of Directors (董事會關聯交易控制委員會議事規則), Unified Credit Management Measures 《統一授信管理辦法》 and Implementation Rules for Related Party Transactions Management Measures 《關聯交易管理辦法實施細則》; (ii) strengthening the management of related businesses; (iii) intensifying pre-loan investigations, strengthening the management of centralized loan approval and treasury business; (iv) strengthening the management of shareholders' qualifications and the monitoring of equity pledge, and improving the evaluation of major shareholders; (v) improving the related party declaration, enhancing the identification capabilities of related party and optimizing the approval procedures of related party transactions; and (vi) strengthening the relevant information disclosure. As of the Latest Practicable Date, the Bank had completed the rectification.

We believe that we have taken appropriate measures to rectify the deficiencies identified and made improvements in our business operation, internal control and risk management.

Considering (i) the above non-compliance incidents have no material and adverse effect on our business, financial condition or results of operations; and (ii) we have adopted internal control measures and the rectification measures, our Directors believe that our internal control measures have not been found not to be effectively implemented in material respects. Therefore, our Directors are of the view that administrative penalties imposed on our Bank do not have any material adverse effect on our Bank's business, financial condition or results of operations.

During the Track Record Period and up to the date of this prospectus, our Bank, our branches, sub-branches or employees had not been subject to any administrative penalties due to fraud or dishonesty. As advised by our PRC Legal Advisor, during the Track Record Period and up to the date of this prospectus, the regulatory authorities did not issue any administrative penalties against us involving fraud or dishonesty on the part of our Bank, our branches, sub-branches or employees.

***Findings of Regulatory Examinations***

Regulatory authorities including CBIRC and PBoC conduct routine, typically on an annual or semi-annual basis and ad hoc inspections, on our compliance with the relevant PRC laws and regulations, guidelines and regulatory requirements. During the Track Record Period and as of the Latest Practicable Date, inspections of our head office, branches and sub-branches and subsidiaries conducted by regulatory authorities such as CBIRC and PBoC involved risk management, internal control, corporate governance, anti-money laundering and operations of various business lines.

Findings of the abovementioned inspections revealed certain deficiencies in our risk management, internal control and other areas. During the Track Record Period and up to the date of this submission, our Bank, our branches, sub-branches or employees had not been subject to any administrative penalties due to fraud or dishonesty. We have promptly adopted rectification measures in accordance with the inspection findings and recommendations from the relevant regulatory authorities and improved our risk management and internal control. In view of our Directors, there were no material deficiencies or systemic failures identified by the inspections during the Track Record Period and up to the Latest Practicable Date. Major findings of inspections and examinations are summarized as follows.

*CBIRC*

CBIRC Dongguan Office and other relevant local offices of CBIRC conduct regular and *ad hoc* inspections on our operations condition, including on-site inspections of our Head Office, branches and sub-branches and subsidiaries. Based on such inspections, the relevant local offices of CBIRC issued inspection opinions, specifying the findings and suggestions. Major issues and advices raised by the relevant local offices of CBIRC in their reports and major rectification measures taken by us during the Track Record Period and up to the Latest Practicable Date are set out as follows:

| Major issues and advices | Our major rectification measures | Date of rectification report |
|---|---|---|
| **Corporate governance and internal control** | | |
| • The corporate governance of our Bank requires improvement, including the strategic management system shall be further refined and the pledge of equity interest policies shall be managed in accordance with the Articles. The performance evaluation system shall also be improved | • Further improved the strategic management system by enhancing the management of strategies' continuity; specifying the implementation of strategic tasks and strengthened the decomposition of strategic goals<br>• Enhanced approval procedures of the pledge of equity interests; strictly reviewed matters relating to the pledge of equity interest of our Bank; standardized reporting system of the pledge of equity interest<br>• Revised our system in accordance with regulatory requirements; strengthened performance evaluation of compliance of laws and regulations; and improved the performance evaluation system, strengthened evaluation on lawful operation, improved rules on deferred payment of performance-based compensation, strengthened self-evaluation and supervision of the performance evaluation system | October 24, 2018 |
| • Various issues related to Yunfu Xinxing Dongying County Bank, including the non-compliance of alarm devices setting of ATMs and failure to sign the letter of responsibility and safety responsibility (《崗位職責及安全責任書》) by relevant department heads | • Training for security personnel on security and fire safety regulations<br>• Installed relevant security devices as required<br>• Procured the responsible personnel to sign the letter of responsibility<br>• Held the responsible personnel accountable | March 19, 2019 |
| • The security management of our Bank shall be enhanced, including the theft-proof security doors, rolling gates, and the resolution of CCTV cameras shall be up to the standards required. Additional | • Improved security facilities by changing equipments that failed to comply with standards, such as security doors and CCTV cameras<br>• Improved night shift arrangements of the control centre | December 12, 2019 |

| Major issues and advices | Our major rectification measures | Date of rectification report |
|---|---|---|
| night shift security guards shall be deployed to the control centre | | |
| • The internal system and compliance management of the Bank should be enhanced, in particular some officers should be reminded of the importance of compliance. The reputation risk management should be enhanced. The management of subsidiaries and investees should be improved through deployment of sufficient staff | • Revision or formulation of systems and remedial plans, including the "Regulation of Stress Test" and "Measures of Compliance, Risk Prevention and Anti-money Laundry of 2021"<br>• Enhanced supervision of the implementation of systems, awareness of compliance, regular training on compliance and risk prevention to improve the awareness of compliance of staff<br>• Established the Asset and Liabilities Management Department with professional staff to strengthen the management of the operation of subsidiaries. An exchange training program was established | July 5, 2021 |
| • Optimization of the data reporting quality | • Examination of data and information and respond to enquiries promptly. Training is provided to understand the purpose of financial reporting so as to improve the quality of financial reports | July 5, 2021 |
| • Insufficient system establishment and internal control execution, inadequate shareholding management and related transaction management, inadequate management of centralized loan approval business of group customers and bill acceptance business of the Bank, and violation of prudent operation principle for wealth management and interbank businesses | • Revised Rules of Procedure of the Related Party Transaction Control Committee of the Board of Directors (《董事會關聯交易控制委員會議事規則》) and Unified Credit Management Measures (《統一授信管理辦法》) and improved the system establishment<br>• Strengthened the business of repurchase of the pledge of equity interest and unified credit management<br>• Intensified pre-loan investigations, and strengthened unified credit management and treasury business<br>• Strengthened the monitoring of loan collateral<br>• Improved the evaluation of the qualification of major shareholders<br>• Strengthened standards of review of related transactions<br>• Improved and optimized the related party declaration and approval process<br>• Strengthened the information disclosure of substantial shareholders and related party transactions | December 10, 2020 |

| Major issues and advices | Our major rectification measures | Date of rectification report |
|---|---|---|
| **Internal inspections** | | |
| • Various issues related to Yunfu Xinxing Dongying County Bank, including insufficient scope and depth of internal inspection resulting in inadequate findings, ineffective and untimely rectification measures and inadequate accountability system | • Conducted further internal inspections<br>• Carried out routine and targeted examinations and audit<br>• Strengthened rectification efforts<br>• Strictly implemented accountability system and imposed strict disciplinary measures on those liable for violations<br>• Strengthened compliance construction and comprehensive employee education | August 30, 2018 |
| **Operational risk management** | | |
| • The system of county banks of our Bank shall be improved in the following areas, low supervisory rating, relatively high credit risk and concentration risk, and insufficient motivation for sustainable development | • Continued to standardize the construction of the county banks systems<br>• Carried out the consolidation and upgrading of supervisory rating work, consolidated the foundation of operation and management<br>• Assigned risk management personnel to county banks to guide the establishment of risk management system<br>• Strengthened loan collection and disposal work<br>• Upholding the market position of supporting agriculture and SMEs, improved the brand management of county banks<br>• Strengthened the cost management and control capabilities of county banks | June 9, 2020 |
| • The deficiency index of the liquidity of Dongguan Dalang Dongying County Bank was below the regulatory requirement | • Efforts were made to increase deposits of medium and long terms and enhance management of the maturity of interbank deposits and interbank assets, and to optimize the loan portfolio by reasonably adjusting the provision of short term loans | July 14, 2021 |
| **Employee management** | | |
| • Irregular credit and trading activities of certain employees' accounts of the Bank, and dealing of cash flow of businesses operated by family members in the accounts of the relevant employees | • Loans to customers guaranteed by certain employees were subsequently settled without any non-compliance in respect of guarantee and credit extension, reprimanded the employees and discontinued the practice<br>• Reprimanded and conducted a written review on employees with abnormal account transactions and ordered such employees to rectify the non-compliance within a prescribed period | March 20, 2018 |

| Major issues and advices | Our major rectification measures | Date of rectification report |
|---|---|---|
| • Various issues related to Yunfu Xinxing Dongying County Bank, including issues related to the implementation of the rotation system of key positions, term of management authorization and the use of the corporate seal | • Strengthened the implementation of the rotation system of key positions<br>• Revised the form of the power of attorney and completing relevant details<br>• Strengthened the implementation of the administration measures for the use of the corporate seal and conducting regular inspections | May 24, 2018 |
| **Business management** | | |
| • Various issues related to Yunfu Xinxing Dongying County Bank, including failure to meet certain profitability indicators such as asset profitability ratio, capital profitability ratio and inaccuracy of reported data | • Increased the efforts to improve deposit procurement and liquidity indicators; consolidating the foundation of loans to curb the increase of non-performing loans; optimizing the pricing system of interest rates<br>• Enhanced trainings for related employees with trainings on relevant financial statistical system and know-how of standard counter services<br>• Restated data and implementing a reviewing and monitoring system on data reporting to prevent data misstatement | June 22, 2018 |
| • Various issued related to Yunfu Xinxing Dongying County Bank, including non-compliance of concentration requirements regarding risk exposure of non-interbank group customers and economically dependent customers and decline in credit asset quality | • Conducted post-disbursement inspection to prevent operational risk<br>• Guided customers to early repay loans in parts to gradually collect loans<br>• Expanded household saving deposits and continuously optimized loan structure<br>• Strengthened the monitoring and collection of overdue loans<br>• Accelerated disposal of non-performing loans to effectively mitigate risks | May 30, 2020 |
| • Some regulatory indices, including profit capital ratio, profit asset ratio and cost revenue ratio, of Chaoyang RCB recorded significant changes | • Strengthened the on-going monitoring of regulatory indices and promptly implemented measures to improve the efficiency of working capital so as to increase gain of capital and to reduce the cost of deposits<br>• Enhanced the management of the written-off, settlement and collection of loans<br>• Enhanced financial audit to control expenses | March 26, 2021 |

| Major issues and advices | Our major rectification measures | Date of rectification report |
| --- | --- | --- |
| • Some customers of Zhanjiang RCB failed to use the loans pursuant to the designated purposes | • Carried out early recovery of the credit facilities that were in violation of regulations<br>• Held relevant personnel accountable<br>• Established monitoring and early warning measures for the use of loans<br>• Improved the consumption loan system and established a loan undertaking mechanism | August 4, 2021 |
| **Interbank business** | | |
| • Inadequate management of insurance agency business of the Bank, such as non-standard promotion materials, irregular promotions by certain sales personnel, inadequate management system, and ineffective management of the dual record system | • Strengthened the management of promotion materials and the supervision of marketing activities<br>• Strengthened retroactive management of marketing activities<br>• Enhanced the management of cooperation institutions<br>• Continuously refining the management system<br>• Reinforced the management of employees' behaviors and raising the compliance awareness of marketing staff<br>• Identified the responsible staff of related issues and allocated the accountability | January 7, 2020 |
| **IT management** | | |
| • The Bank should strengthen the management of IT system. In respect of the monitoring of IT system risk, no risk indicators were determined for some critical IT infrastructure. The operation system of some ATMs was not updated in time | • Improvement of IT system management<br>• Improvement of the risk indicators for IT system by adding indicators for critical IT infrastructure<br>• Introduction of the schedule of ATM updates to facilitate the updates and replacement of ATMs | April 27, 2021 |
| • Inadequate management of the information system and information security risk and inefficient management of business continuity of our Bank in response to emergencies | • The functions of the IT system were enhanced for better security control<br>• Establishment of on-site back-ups for major operation systems; rehearsing of system restoration after the occurrence of disasters; establishment of remote back-ups; and provide refresher trainings to personnel dealing with contingent incidents | November 30, 2018 |

| Major issues and advices | Our major rectification measures | Date of rectification report |
|---|---|---|
| • Fault of the online banking business as a result of the technical failure of online banking database of the Bank | • Analyzed the cause of the failure, carried out investigation and rectification of important information systems<br>• Improved emergency plans and the ability to resolve failures efficiently<br>• Improved business continuity management system, such as Measures on Business Continuity Management of Dongguan Rural Commercial Bank Co., Ltd. (《東莞農村商業銀行股份有限公司業務連續性管理辦法》), and clarified the responsibilities of relevant departments<br>• Increased resource input and enhanced business continuity guarantee | December 14, 2020 |
| **Information disclosure** | | |
| • Failure of the Board of Supervisors of Yunfu Xinxing Dongying County Bank to provide written review opinions on 2017 information report | • Studied the regulatory documents and actively implement rectification measures<br>• Strictly implemented the responsibility of identification and investigation | July 6, 2018 |
| • Zhanjiang RCB failed to submit its reports to the regulatory authorities. | • Reports of information about some branches of the cooperative before reorganization, the appointment of chairman of the board of supervisors and the temporary suspension of offices for renovation were submitted to the regulatory authorities | May 10, 2021 |

During the Track Record Period, our Bank has met all the key regulatory indicators. As of the Latest Practicable Date, while the regulatory indicators in relation to cost-to-income ratio and centralization of credit approval for customers of Chaoyang RCB and Yunfu Xinxing Dongying County Bank continued to improve, our Bank had completed relevant rectifications measures and we timely submitted rectification reports in relation to the implementation of regulatory recommendations included in the inspection reports issued by the local offices of the CBIRC and its branches. The relevant local offices of CBIRC had not issued further rectification requirements to our Bank on our rectification measures adopted in accordance with the regulatory opinions, and we had not received any request for additional rectification measures or notice of penalty. Based on the above findings from the inspections of relevant local offices of CBIRC, we believe that there are no material deficiencies in our business operations, corporate governance, internal controls or risk management, and we also believe that such findings do not have any material and adverse effect on our business, financial condition or results of operations.

*PBoC*

The local branches of PBoC conduct regular and *ad hoc* inspections on us, including onsite inspections of our Head Office, branches and sub-branches and subsidiaries. Based on such inspections, the local branches of PBoC have issued inspection reports containing their findings and suggestions.

During the Track Record Period and as of the Latest Practicable Date, the local branches of PBoC conducted various inspections on us. The key issues and major advices issued based on the inspections and our major rectification measures are set out as follows:

| Major issues and advices | Our major rectification measures | Date of rectification report |
|---|---|---|
| • Non-compliance by a customer of the Bank, being a special customer and an outsourced service agency, with the regulatory requirement in respect of the strict management of outsourced service agencies and prohibition of outsourced service agencies from joining the network in the name of merchant | • Promptly suspended and terminated the transactional functions of the terminals used by outsourced service agencies in the relevant system, and repossessed all terminal equipment<br>• Strengthened training to enhance compliance awareness<br>• Organized training session to improve business skills<br>• Conducted risk inspection in accordance with relevant system requirements<br>• Further enhanced the management of the procurement of outsourced services | March 15, 2018 |
| • Insufficient financial data statistics work of Yunfu Xinxing Dongying County Bank, such as the statistics of loans by industry, statistics of loans to large, medium, small and micro businesses and statistics of agriculture-related loans | • Corrected errors in statistics, and enhanced data management | August 31, 2018 |
| **Credit information management** | | |
| • Various issues related to Yunfu Xinxing Dongying County Bank, including inadequate internal supervision and management of decision-making for credit inspection, failure to conduct internal and external audit on credit inspection business activities, non-standard template for letter of authorization in relation to the development of internal control of credit inspection, insufficient objection handling system; inadequate guidelines for handling contingency in respect of credit inspection, failure to complete internal approval procedures when granting new authorization for objection to users in respect of user management of credit inspection, lack of options for choosing | • Implemented internal policy that mandates internal audit department to perform internal audits on credit inspection a periodic basis<br>• Amended the Financial Credit Information Basic Database Access and Data Submission Authorization (《金融信用信息基礎數據庫查詢、報送授權書》); adopted standardized form of power of attorney for all existing credit files on September 13, 2018; and set up emergency response team for credit information security<br>• Revised the Implementation Rules for Basic Database Management of Personal Credit Information (《個人信用信息基礎數據庫管理實施細則》) to rectify the internal examination and approval conditions on rejecting users<br>• Revised the template of the power of attorney providing specific checkboxes in the future business process; held internal credit compliance training meetings to re-emphasize that correct purpose must be applied strictly based on business types of customers when a request for access of credit report is made | September 21, 2018 |

| Major issues and advices | Our major rectification measures | Date of rectification report |
|---|---|---|
| access purpose in the letter of access authorization in respect of the compliance operation of credit inspection business and wrong selection of reasons for certain accesses | | |
| • Inadequate and incomplete credit data submission, credit personnel and user management, access authorization and other business regulations of Hezhou Babu Dongying County Bank | • Implemented the rectification measures<br>• Clarified responsibility, strengthened accountability, and held responsible personnel accountable<br>• Reformed existing credit information system<br>• Strengthened the training of all business personnel in respect of credit information operations<br>• Accelerated the construction of the second generation credit information system; and<br>• Strengthened audit management and carrying out regular business inspections | April 29, 2019 |
| **Payment and settlement** | | |
| • Failing to promptly make account reconciliation between our Bank and corporate customers, and failing to file cancellation of bank settlement accounts within 2 working days with the Renminbi Bank Settlement Account Management System by Yunfu Xinxing Dongying County Bank | • Assigned specific personnel to follow up the rectification and reminding customers to verify their accounts every month<br>• Conducted training sessions on Administrative Measures for Renminbi Bank Settlement Accounts Management (《人民幣銀行結算賬戶管理辦法》) | October 10, 2018 |
| • Non-compliance of Hezhou Babu Dongying County Bank with regulations in relation to an internal deposit account opened in the name of a company, and failure to handle settlement business before prescribed deadline | • Cancelled the relevant internal accounts<br>• Strengthened training on relevant payment and settlement system | March 3, 2018 |
| **Business management** | | |
| • Various issues related to Dongguan Dalang Dongying County Bank, including incomplete contents for announcements in the business places and non-compliance with regulation for cash storage at counters | • Strengthened the promotion of RMB receipt and payment and anti-counterfeit money procedures<br>• Enhanced staff training to improve their business knowledge | February 27, 2019 |

| Major issues and advices | Our major rectification measures | Date of rectification report |
|---|---|---|
| • Irregular storage of accounts information files by Dongguan Dalang Dongying County Bank | • Required all outlets to keep copies of the customers' ID cards, print and file the "Certificate of Online Verification Result (聯網核查結果證明)" to ensure the integrity of accounts information during the verification of the customers' identifications, especially when conducting online verification of ID cards for services such as accounts opening | October 23, 2018 |
| • Inadequate regulations on poverty alleviation re-finance file management, insufficient ledger management of poverty alleviation re-finance, and failure to release poverty alleviation loan within 1 month from the receipt of poverty alleviation re-finance funds by Hezhou Babu Dongying County Bank | • Standardized the file management procedures<br>• Strengthened counter ledger management<br>• formulated and strictly implemented loan release plans<br>• Strengthened relevant training | April 28, 2018 |
| • The existing accounts investigation of Hezhou Babu Dongying County Bank needed to be strengthened, and the classification management and control measures were not adequate | • Completed the comprehensive risk investigation of the existing personal accounts in different places<br>• Improved classification management and control system | December 31, 2020 |
| • Various issues related to Hezhou Babu Dongying County Bank, including incorrect calculation of credit risk-weighted assets on the balance sheet, inaccurate statistics on credit risk-weighted assets on the balance sheet, and inaccurate reporting of deposits | • Standardized the loan statistics basis<br>• Learned to fill in the instructions carefully to improve the accuracy of data statistics<br>• Refilled data and maintain consistency | September 10, 2020 |

As of the Latest Practicable Date, we had completed relevant rectification measures, the relevant local branches of PBoC had not issued further rectification requirements to our Bank on our rectification measures adopted according to the regulatory opinions, and we had not received any request for additional rectification measures or notice of penalty. Based on the above findings from the inspections of relevant local branches of PBoC, we believe that such findings do not have any material and adverse impact on our business, financial condition or results of operations.

**NAO**

NAO and its relevant local offices conduct regular and *ad hoc* inspections on our operational condition, including on-site inspections of our head office and subsidiaries. Based on such inspections, relevant local offices of NAO issued inspection reports specifying their findings and suggestions. The following table sets forth the major issues identified by the relevant local offices of NAO and our major rectification measures during the Track Record Period and as of the Latest Practicable Date:

| Major issues and advices | Our major rectification measures | Date of rectification report |
|---|---|---|
| Corporate governance risks and business risks related to asset and liability quality of our Bank | • Actively liaised with relevant clients to complete works on the release of pledge; strengthened the information collection of equity pledge and implemented the quarterly target for equity pledge inquiries; improved the organizational structure of shareholder equity management<br>• Improved standardization of loan approval to group customers; carried out internal inspections on existing customers and on-balance and off-balance sheet credit business; training on relevant guidelines for credit extensions and risk management, and revised our own approval systems and procedures; established a standardized credit management system to regulate the management and, standardized and clarified classification standard of agriculture-related loans; and carried out business training for relevant business departments to standardize operations and prevent risks | July 5, 2018 |

As of the Latest Practicable Date, the relevant local offices of NAO had not issued further rectification requirements to our Bank on our rectification measures based on the previous supervisory opinions, and we did not receive any notice requiring us to take further actions or receive penalties. We are of the view that, in accordance with the above inspection performed by the local offices of NAO, the above inspection results did not have any material and adverse effect on our business, financial position or results of operations.

**Non-compliance of Employees**

We continuously monitor the non-compliance of our employees, customers and other third parties. The non-compliance we monitor includes but not limited to improper use of invoice and reimbursement of personal expenses; insufficient investigation of the assets and risk management policy and procedures of debt securities, fund investments and rights to earnings on credit assets before investment. Such non-compliance of our employees are isolated cases, and were primarily due to inadequate learning and understanding of our internal policies. We further enhance our internal control and risk management when we identify any irregularities. For details of our internal control and risk management, please see section "Risk Management". During the Track Record Period and as of the Latest Practicable Date, none of our Directors and senior management were involved in the above non-compliance events. Considering the nature of and reason for the above-mentioned non-compliance of our employees, we believe that any non-compliance events, individually or collectively, did not have any significant adverse effects on our business, financial conditions or operating results. We believe that the financial loss and other unfavorable results of such non-compliance events, individually or collectively, did not have any significant adverse effects on our business, financial conditions or operating results. We will continue to enhance our internal control and risk management to prevent the reoccurrence of similar non-compliance events.

During the Track Record Period and as of the Latest Practicable Date, we were not aware of any material non-compliance events involving our employees which might have material adverse effects on our business, financial conditions or operating results.

**Compliance with Major Guidelines**

We have been in compliance with the relevant regulations and guidelines on business operation, risk management, taxation and internal control. During the Track Record Period and as of the Latest Practicable Date, we have not been imposed of any material penalties according to the Major Guidelines on Risk Management of Commercial Banks (Provisional) (商業銀行風險監管核心指標（試行）) issued by the CBRC due to the non-compliance of various regulatory ratio during regulatory investigation and survey.

***Anti-money Laundering***

During the Track Record Period and as of the Latest Practicable Date, we had not been found or involved in any major money laundering. Please see "Risk Management — Anti-money laundering".

## OVERVIEW

Our Bank has established a comprehensive and vertically-integrated risk management system which includes the Board of Directors, the Board of Supervisors, the senior management, risk management-related specialized committees and departments. Together, they form the overall risk management apparatus. The Board of Directors and its subordinate committees are responsible for determining our Bank's overall risk management and internal control policies. The Board of Supervisors and its subordinate committees supervise and evaluate the efficiency and effectiveness of the operation of the risk management. The senior management and its committees implement specific standards on the major issues in respect to the risk management, and various departments at our Bank's head office, led by the Comprehensive Risk Management Department, conduct our Bank's day-to-day risk management.

Our Bank's risk management system operates on the principles of comprehensiveness, compatibility, effectiveness and independence.

- Comprehensiveness: our Bank's risk management mechanism strives to encompass every perceivable risk in our business operations;

- Compatibility: our Bank's risk management is compatible with the nature and complexity of our Bank's businesses and operations. The policies and procedures designed and implemented are compatible with the long-term development strategy, our Bank's capital level and risk tolerance;

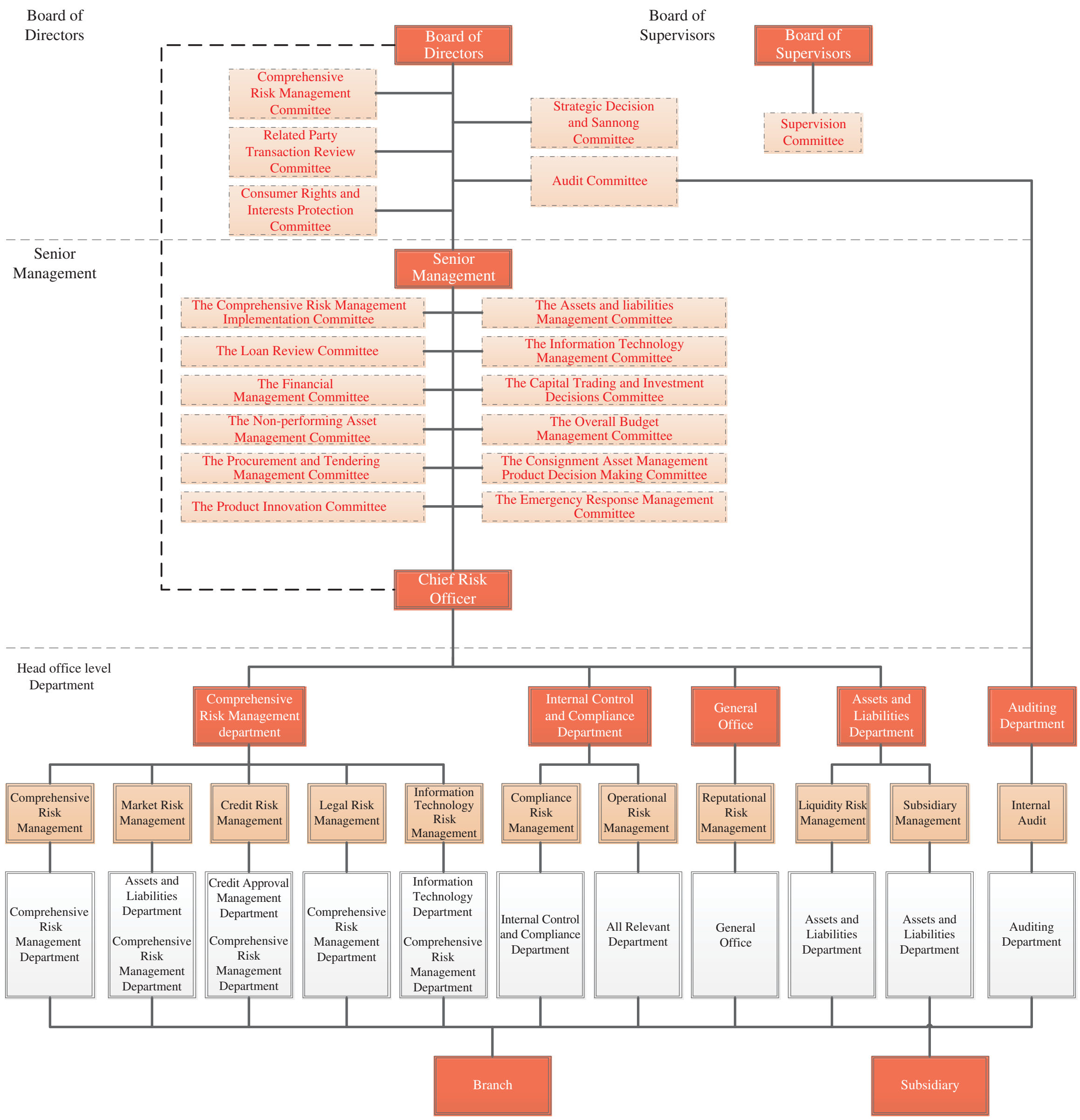
- Effectiveness: duty and responsibilities are unambiguously allocated and assigned with effective check and balance among various committees, departments and positions under our Bank's comprehensive risk management mechanism; and

- Independence: our Bank's Board of Directors, Board of Supervisors, senior management and their respective subordinate committees exercise their respective duties independently through a clearly defined authorization mechanism, along with dedicated and direct reporting channels. Such dedicated and direct reporting channels have also ensured the independence of the departments responsible for risk management from our Bank's business operations.

Our Bank strives to adhere to and continue to improve the established comprehensive risk management mechanism which deals primarily with the market risk, credit risk, liquidity risk, information technology risk, operational risk, legal and compliance risk, reputation risk, subsidiaries risk and other risks. Our Bank's comprehensive and vertically-integrated risk management structure, strict implementation, and constant internal monitoring together form the basis of our Bank's risk management mechanism.

## RISK MANAGEMENT FRAMEWORK

As of the Latest Practicable Date, our Bank's organizational structure of risk management was as follows:




Through the continuous innovation which has strengthened our Bank's risk management system, our Bank has built a tripartite risk management system based on procedure, technology and culture.

Our Bank has also formulated a multi-dimensional cooperative risk management system, which allocates risk management duties at the core management levels, namely, the Board of Directors, the Board of Supervisors, and the senior management. In particular, our Bank has appointed a chief risk management officer at the head office to further enhance our Bank's ability to plan and allocate risk management.

Our Bank continues to solidify the "three lines of defense (三道防線)" of risk management structure which comprehensively addresses potential risks associated with our Bank's businesses. The three lines of defense structure is to divide the relevant departments of each type of risk management from the perspective of risk prevention and control.

- the First Line of Defense refers to our Bank's frontline business departments and business outlets which identify and report risk exposures at the front end of our Bank's operation;

- the Second Line of Defense refers to departments responsible for risk management, which are responsible for designing the risk management mechanism, policies and procedures; and

- the Third Line of Defense refers to the Audit Department which conducts independent supervision and assessment of the effectiveness and adequacy of overall risk management procedures and measures.

The Comprehensive Risk Management Department is responsible for the centralized and comprehensive coordination and management of our Bank-wide risk exposure and it has established various working groups to specifically address risks associated with each line of our Bank's business. Our Bank complements our horizontal risk management at the head office level with a vertical line of risk management at the branch level.

Our Bank has established an internal control review system at our Bank's head office and branches to investigate, analyze and resolve internal control issues. In addition, our Bank built an effective information technology support system including credit risk rating system to facilitate timely updates and adjustments of our Bank's risk management system.

## BOARD OF DIRECTORS AND ITS SPECIALIZED COMMITTEES

Our Bank's Board of Directors is at the center of our Bank's risk management. It is mainly responsible for (i) the comprehensive risk management of the Bank and compliance of its operation, liquidity risk management, reputation risk management, consolidation management as well as the consumer rights protection functions of the Bank; (ii) creation of risk management culture and formulation of comprehensive risk management policy, determination of risk tolerance, risk appetite, internal control, reputation risk, financial innovation risk management, event risk management as the basic structure of the risk management of the Bank.

Our Bank's Board of Directors performs its risk management duties through the Comprehensive Risk Management Committee (全面風險管理委員會), the Audit Committee (審計委員會), the Related Party Transaction Control Committee (關聯交易控制委員會), and the Strategic Decision and Sannong Committee (戰略決策和三農委員會) and Consumer Rights Protection Committee (消費者權益保護委員會) with the support from the senior management and its risk management related committees and departments at our Bank's head office, branches, and sub-branches.

### Comprehensive Risk Management Committee (全面風險管理委員會)

The Comprehensive Risk Management Committee is primarily responsible for (i) studying and implementing relevant national economic and financial policies and regulations as well as rules and regulations of the relevant regulatory bodies, guiding the formulation of our Bank's comprehensive risk management framework, as well as our Bank's risk strategy and basic risk management policies; (ii) contracting external party to supervise our Bank's management on credit risk, market risk, operation risk, liquidity risk, legal compliance risk, information technology risk and reputation risk; (iii) regularly assessing the overall situation and effectiveness of our Bank's risk management and putting forward suggestions on improving our Bank's risk management and internal control; (iv) encouraging the senior management to take necessary measures to effectively identify, assess, monitor, control and mitigate risks; (v) ensuring that our Bank's risk management system is subject to the effective review and supervision of the Audit department; (vi) reviewing our Bank's asset and liability management policies and implementation; (vii) organizing and guiding our Bank's case prevention work; and (viii) regularly through independent interviews with the compliance director and other effective ways, understanding the implementation of the compliance policy and existing problems, timely putting forward corresponding opinions and suggestions to the Board of Directors or senior management, and supervising the effective implementation of the compliance policy.

The Comprehensive Risk Management Committee is responsible to the Board of Directors, and the proposal of the committee is submitted to the Board of Directors for deliberation and decision.

As of the Latest Practicable Date, the Comprehensive Risk Management Committee had four members and Mr. Ye Jianguang served as its chairperson.

**Related Party Transaction Control Committee (關聯交易控制委員會)**

The Related Party Transaction Control Committee is primarily responsible for examination, supervision and review of related party transactions in which our Bank has engaged.

When dealing with related party transactions, the Related Party Transaction Control Committee is primarily responsible for (i) the management and control of related party transactions; (ii) formulating standards and procedures under which the related party transactions are evaluated; (iii) informing the Board of Directors and the Board of Supervisors of details of related party transactions; and (iv) other matters that are required under the relevant laws and regulations.

Our Bank considers transactions with a related party to be major related party transactions if a single transaction amount accounts for more than 1% of our Bank's net capital, or a series of transactions with a related party whose aggregate transaction amount accounts for more than 5% of our Bank's net capital (for calculation of the amount of transactions between a related individual and the Bank, the transactions between the family members of such person and the Bank shall also be included; for calculation of the amount of transactions between a related legal person or other entity and the bank, the transactions between its affiliated legal person or other entity and the Bank shall also be included). Major related party transactions are normally reviewed by the Related Party Transaction Control Committee and submitted to the Board of Directors for approval thereafter. Independent directors are required to express their opinions on the fairness of major related party transactions and the completeness of implementation of internal approval procedures. Major related party transactions are then reported to the Board of Supervisors. Such transactions will also be timely reported to the relevant banking regulatory authorities.

As of the Latest Practicable Date, the Related Party Transaction Control Committee had four members and Mr. Shi Wenfeng served as its chairperson.

**Strategic Decision and Sannong Committee (戰略決策和三農委員會)**

Our Bank's Strategic Decision and Sannong Committee is primarily responsible for (i) formulating business management objectives and long-term development strategic plan; (ii) studying and making suggestions on the major investment and financing plans; (iii) studying and making suggestions on major capital operation and asset operation projects; (iv) studying and making suggestions on other major issues affecting the development of our Bank; (v) supervising and inspecting the implementation of our Bank's annual business plan and investment plan; (vi) formulating our Bank's green credit development strategy, reviewing the green credit objectives and green credit reports formulated by the senior management and submit reports to the Board of Directors for review and approval; (vii) formulating our Bank's business development strategy and plan for agriculture, rural areas and farmers, reviewing and evaluating our Bank's annual financial service resource allocation plan for agriculture, rural areas and farmers; (viii) guiding the formulation of business operation plans and relevant systems for agriculture, rural areas and farmers; and (ix) guiding the innovation and development of financial services and products for agriculture, rural areas and farmers. The Strategic Decision and Sannong Committee reports to the Board of Directors, and the proposal of the committee will be submitted to the Board of Directors for deliberation and decision.

As of the Latest Practicable Date, the Strategic Decision and Sannong Committee had five members and Mr. Wang Yaoqiu served as its chairman.

**Audit Committee (審計委員會)**

The Audit Committee is primarily responsible for (i) examining our Bank's financial and accounting policies, financial position and financial reporting procedures and their implementation; (ii) review our Bank's risk and compliance status; (iii) auditing and supervising our Bank's annual financial statements, annual reports, audited annual financial reports and accounts, interim reports and quarterly report (if published) of our Bank to review significant financial reporting judgments contained in them, and preparing an evaluation report on the truthiness, completeness and accuracy of the audited financial reports, determining whether such financial reports will be submitted to the Board of Directors and liaise with external auditing party at least twice per annum; (iv) review the reports before submission to the board, focus particularly on issues such as any changes in accounting policies and practices, major judgmental areas, significant adjustments resulting from audit, the going concern assumptions and any qualifications, compliance with accounting standards; and compliance with the Listing Rules and legal requirements in relation to financial reporting; and to consider any significant or unusual items that are, or may need to be, reflected in the report and accounts, it should give due consideration to any matters that have been raised by the issuer's staff responsible for the accounting and financial reporting function, compliance officer or auditors; (v) review the external auditor's management letter, any material queries raised by the auditor to management about accounting records, financial accounts or systems of control and management's response; and to ensure that the Board of Directors will provide a timely response to the issues raised in the external auditor's management letter; approving internal audit regulations, medium and long-term audit plans, and annual work plans; (vi) reporting the audit work to the Board of Directors on a regular basis, and notify such progress to the senior management and Board of Supervisors; (vii) supervising the senior management to timely rectify issues identified in the audit findings and implementing the audit recommendations; (viii) reassessing any objections to the audit; (ix) proposing to the Board of Directors to investigate the responsibilities of individuals who are responsible for internal auditing and the person who is directly responsible; (x) make recommendations to the Board of Directors on the appointment, re-appointment, removal or replacement of the external auditors, and to approve the remuneration and terms of engagement of the external auditors, and to handle any questions in relation to the resignation or removal of external auditors; (xi) review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards; and discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences; (xii) develop and implement policy on engaging an external auditor, including any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party knowing all relevant information would reasonably conclude to be part of the audit firm nationally or internationally, to supply non-audit services; and report to the Board of Directors, identifying and making recommendations on any matters where action or improvement is needed; (xiii) supervising the formulation and implementation of our Bank's internal audit system; (xiv) act as the key representative body for overseeing our relations with the external auditor, responsible for the communication between internal audit and external audit and to monitor their relationship; (xv) ensure co-ordination between the internal and external auditors, and to ensure that the internal audit function is adequately resourced and has appropriate standing within our Bank, and to review and monitor its effectiveness; (xvi) to consider major investigation findings on risk management and internal control matters as delegated by the Board of Directors or on its own initiative and management's response to these findings; (xvii) report to the Board of Directors on the matters under paragraph C.3 of the Corporate Governance Code under the Listing Rules; and (xviii) reviewing our Bank's internal control system and auditing major related party transactions.

The Audit Committee reports to the Board of Directors, and its proposal shall be submitted to the Board of Directors for deliberation and resolutions.

As of the Latest Practicable Date, the Audit Committee had four members and Mr. Xu Zhi served as its chairman.

**Consumer Rights Protection Committee (消費者權益保護委員會)**

The Consumer Rights Protection Committee is mainly responsible for: (i) submitting the work report and annual report on consumer rights protection to the Board, conducting relevant works and discussing and deciding relevant matters as delegated by the Board, as well as studying the major issues and important policies for consumer interests protection; (ii) guiding and supervising the establishment and improvement of consumer interests protection system; (iii) supervising the comprehensiveness, timeliness and effectiveness of the works conducted by the senior management and consumer interests protection department based on the regulatory requirements as well as the implementation of strategies, policies and objectives of consumer interests protection and the relevant work progress; (iv) holding regular work meetings for consumer interests protection and urging senior management and the relevant departments to timely rectify the issues identified during the course of reform; and (v) other matters related to the duties of the committee as required under the laws, regulations and relevant regulatory system or authorized by the Board.

As at the Latest Practicable Date, the Consumer Rights Protection Committee had four members and Mr. Fu Qiang served as its chairman.

## THE BOARD OF SUPERVISORS AND ITS SPECIALIZED COMMITTEE

Our Bank's Board of Supervisors is mainly responsible for overseeing the performance of the Board of Directors and the senior management in accordance with the relevant laws and regulations and our Bank's articles of association, as well as the financial performance, internal control and risk management of our Bank. The Board of Supervisors achieves such objective through its independent advices and opinions which are formed through its participation in meetings of the Board of Directors, its independent research, and its interviews with our Bank's staff and key personals.

The Board of Supervisors specifically supervises the Board of Directors and its members on their (i) compliance with laws, regulations, rules and other regulatory documents; (ii) compliance with the articles of association, the procedure of the general meeting of shareholders, the procedure of the Board of Directors in implementing the relevant resolutions of the general meeting of shareholders and the Board of Supervisors and in executing major business management decisions; (iii) efforts made to continuously improve corporate governance, development strategy, business philosophy, capital management, compensation management, information disclosure and safeguard the interests of customers and other stakeholders; and (iv) effective operation of each committee under the Board of Directors.

The Board of Supervisors specifically supervises the performance of the senior management and its members on their (i) compliance with laws, regulations, rules and other regulatory documents; (ii) compliance with our Bank's articles of association and the authorization of the Board of Directors in implementing the resolutions of the general meeting of shareholders, the Board of Directors and the Board of Supervisors, and performing the operation and management responsibilities within the scope of their respective functions and powers; and (iii) continuous improvement of operation management, risk management, and internal control.

When the acts of Directors or members of the senior management damage our Bank's interests, the Board of Supervisors has the power and authority to require such directors or members of the senior management to make corrections. For instance, if the Board of Supervisors finds that the Board of Directors or the senior management fails to implement the principle of prudent accounting, to strictly calculate the interest receivable, or to make sufficient reservation for bad debts, it has the power and authorization to require corrections.

### Supervisory Committee (監督委員會)

The Supervisory Committee under the Board of Supervisors is established by the Board of Supervisors in accordance with our Bank's articles of association. It carries out its work in accordance with these rules of procedure and the authorization from the Board of Supervisors. It is mainly responsible for formulating specific plans for the inspection and supervision of our Bank and implementing relevant inspections.

The Supervisory Committee is mainly responsible for formulating plans for supervision of our Bank's financial activities, and organizing their implementation; supervising the Board of Directors to establish sound business philosophy, value standards and formulate development strategies in line with our Bank's actual development direction; and supervising and inspecting our Bank's business decision-making, risk management and internal controls.

The Supervisory Committee is responsible to the Board of Supervisors, and the proposals of the Supervisory Committee shall be submitted to the Board of Supervisors for deliberation and approval.

As of the Latest Practicable Date, the Supervisory Committee consisted of four members and was chaired by Mr. Zhang Bangyong.

## SENIOR MANAGEMENT AND ITS SPECIALIZED COMMITTEES

At the senior management level, our Bank's risk management system consists of the Comprehensive Risk Management Execution Committee (全面風險管理執行委員會), the Loans Review Committee (貸款審查委員會), Financial Management Committee (財務管理委員會), the Non-performing Asset Management Committee (不良資產管理委員會), Procurement and Tendering Management Committee (採購與招標管理委員會), the Assets and Liabilities Management Committee (資產負債管理委員會), the Information Technology Management Committee (信息科技管理委員會), Proprietary Trading and Investment Decision Committee (資金交易與投資決策委員會), the Budget Management Committee (全面預算管理委員會), Consignment Asset Management Products Decision Committee (代銷資產管理產品決策委員會), Emergency Response Management Committee (突發事件應對管理委員會) and Product Innovation Committee (產品創新委員會).

### Comprehensive Risk Management Execution Committee (全面風險管理執行委員會)

The Comprehensive Risk Management Execution Committee is the primary risk management organization under our Bank's senior management. In accordance with the risk management strategy formulated by the Board of Directors and the conditions of our Bank, the Comprehensive Risk Management Implementation Committee determines the systems and measures in respect of the management of credit risk, market risk, operation risk, liquidity risk, legal risk, compliance risk, information technology risk, reputation risk and other important matters relating to risk management.

The Comprehensive Risk Management Execution Committee has five sub-committees, namely the Business Continuity Sub-committee (業務連續性管理領導小組), Legal Risk Sub-committee (法律風險工作領導小組), Reputation Risk Sub-committee (聲譽風險工作執行小組), Work Safety Sub-committee (安全生產工作領導小組) and Risk Debt Securities Disposal Sub-committee (風險債券處置小組).

As of the Latest Practicable Date, the Comprehensive Risk Management Execution Committee consisted of five deputy chairmen, 22 members and was chaired by Mr. Fu Qiang.

### Loans Review Committee (貸款審查委員會)

The Loans Review Committee is a deliberative and decision-making body, responsible for reviewing and approving the credit businesses on- and off- the balance sheet loans in RMB and foreign currencies, and is responsible for our Bank-wide loan policy, the industry credit access, online loans and other matters.

The Loans Review Committee consists of a Large Loans Review Committee (大額貸款審查委員會), a Medium Loans Review Committee (中額貸款審查委員會) and a Inclusive Financial Project Review Committee (普惠金融項目審查委員會). The basic principles of the Loans Review Committee are: professional examination, collective deliberation, careful decision-making and independent voting.

As of the Latest Practicable Date, the Loans Review Committee consisted of 19 members and was chaired by Mr. Ye Jianguang.

**Assets and Liabilities Management Committee (資產負債管理委員會)**

The Assets and Liabilities Management Committee is a dedicated committee under the leadership of the senior management to strengthen the asset and liability management. The Assets and Liabilities Management Committee is responsible for (i) deliberating our Bank's asset and liability management policies, systems, objectives and operational strategies and reviewing our Bank's annual asset and liability plan, and asset and liability analysis report; (ii) deliberating the general and structural control plans relating to the assets and liability management, analyzing the bank-wide asset quality, liquidity status, interest rate sensitivity, and the overall situation of other risks that may affect our Bank's asset and liability structure and allocation; (iii) reviewing policies, systems and reports on capital management; (iv) deliberating our Bank's liquidity management policies and systems; (v) deliberating our Bank's account book interest rate risk and exchange rate risk management policies and systems, and examining and approving our Bank's exposure limits and management strategies of interest rate risk and exchange rate risk; and (vi) deliberating our Bank's annual, quarterly and other major investment and financing plans, policies and strategies and the asset securitization and other balance sheet changes.

As of the Latest Practicable Date, the Assets and Liabilities Management Committee consisted of 18 members and was chaired by Mr. Fu Qiang.

**Information Technology Management Committee (信息科技管理委員會)**

Under the guidance of our Bank-wide business development strategy formulated by the Board of Directors, the Information Technology Management Committee is responsible for organizing and coordinating the bank-wide IT construction planning, data governance, information technology risk and information security management.

The Information Technology Management Committee consists of Information Technology Management Office (信息科技管理辦公室) and Data Governance Office (數據治理辦公室).

The Information Technology Management Office is responsible for the research and formulation of major information technology proposals, and organizing the implementation of our Bank's information security management.

The Data Governance Office is responsible for formulation of data governance related systems, preparation, implementation and coordination of data governance standards, daily monitoring of data quality, promotion of data quality management by all departments at the head office and branches, and planning, definition, collection, application, storage, integration and management of metadata.

As of the Latest Practicable Date, the Information Technology Management Committee consisted of 19 members and was chaired by Mr. Fu Qiang.

**Non-performing Asset Management Committee (不良資產管理委員會)**

The Non-performing Asset Management Committee makes collective deliberation and forms resolution on the non-performing asset disposal business within its authority in accordance with national laws, regulations, non-performing asset disposal policies and systems, as well as the business plan determined by the Board of Directors. The Asset Disposal Review Committee is also responsible for reviewing the system and authority of disposal of non-performing assets and supervision of the recovery, revitalization, preservation and disposal of non-performing assets by relevant departments and branches.

As of the Latest Practicable Date, the Non-performing Asset Management Committee consisted of five members and three alternate members and was chaired by Mr. Ye Jianguang.

**Financial Management Committee (財務管理委員會)**

Under the leadership of our Bank's management team, the Financial Management Committee carries out examination and approval of our Bank's annual financial expenditure budget, mid-year budget adjustment, financial expenditure on project approval, property disposal in accordance with its prescribed authority; examining, analyzing and supervising the financial matters; deliberating and approving the financial budget, expenditure and property disposal; and coordinating and solving the contradictions in financial expenses during the process of budget management.

The Financial Management Committee is accountable to the operation management team, and is responsible for the implementation of budget control and financial management with a focus on enhancing the economic benefits of our Bank in order to protect our legitimate interests.

As of the Latest Practicable Date, the Financial Management Committee consisted of four members and ten expert members and was chaired by Mr. Chen Wei.

**Proprietary Trading and Investment Decision Committee (資金交易與投資決策委員會)**

The Proprietary Trading and Investment Decision Committee is mainly responsible for: (i) analyzing the development of proprietary trading and investment business, and assessing the proprietary trading and wealth management asset and liability structure as well as the credit risk, liquidity risk, interest rate risk and profitability of the current period; (ii) analyzing the factors and variables that may affect the macro economic and financial policies, and studying and forecasting the direction of market changes; (iii) formulating the strategies regarding the adjustment of asset and liability structures of proprietary trading and wealth management as well as the investment and transaction strategy for proprietary trading and investment businesses pursuant to our actual situation and market research; (iv) reviewing the strategies regarding the asset and liability structure of wealth management business; (v) reviewing the strategies of derivative products and their complementary businesses; (vi) reviewing and verifying the qualified list of managers and business limits of specific asset management plans and public funds; and (vii) reviewing the negative list of debt securities issuers and the black list and white list of transaction counterparties.

As of the Latest Practicable Date, the Proprietary Trading and Investment Decision Committee consisted of 11 members and eight alternate members and was chaired by Mr. Fu Qiang.

**Budget Management Committee (全面預算管理委員會)**

The Budget Management Committee is responsible for preparing and deliberating our Bank-wide budget, carrying out budget management and combining the budget plan with our Bank's development strategies. The

Budget Management Committee is required to notify the chairman of the Board of Directors and the chief supervisor in advance of its meeting and submit relevant meeting materials, who attended the meeting as necessary.

The Budget Management Committee is primarily responsible for (i) organizing and coordinating our Bank-wide planning and budgeting work, (ii) considering the policies, regulations and standards related to budget management; (iii) considering the overall budget draft, budgets for various lines of business and the budget draft prepared by various departments; (iv) reviewing our Bank's annual business, financial and capital budget indicators; (v) listening to the budget implementation reports, and listening to the corresponding business improvement measures and effects thereof; (vi) reviewing and revising the adjustment or revision to the draft budget; and (vii) coordinating and resolving conflicts in the process of budget management.

As of the Latest Practicable Date, the Budget Management Committee consisted of 18 members and 12 alternate members and was chaired by Mr. Fu Qiang.

**Consignment Asset Management Products Decision Committee (代銷資產管理產品決策委員會)**

The Consignment Asset Management Products Decision Committee is under the direct supervision of the senior management of our Bank's head office. The committee shall make decision on major matters of the agent sale of asset management business, including (i) approval of acceptance of business partner and products, in particular, the committee shall consider white list of business partners, acceptance report of entities not registered in the white list with in-depth study of the credit, operation, asset management, product development, internal control of potential business partners; and (ii) dealing with major risks and the withdrawal of entities and products, in particular, major risks shall include but not limited to the insolvency, significant potential risk, significant default events and major funding issue of business partners, unsatisfactory customer services, influential customer complaints of unsatisfactory handling of complaints or negative media coverage resulting in damaging of our Bank's reputation. The committee shall make decision on the exit of unqualified business partners and products.

As of the Latest Practicable Date, the Consignment Asset Management Products Decision Committee consisted of five members and was chaired by Ms. Chen Dongmei.

**Procurement and Tendering Management Committee (採購與招標管理委員會)**

The Procurement and Tendering Management Committee is under the leadership of the senior management of the Bank to lead and manage purchasing and tendering activities of the Bank and approve major purchases. The committee is mainly responsible for: (i) considering and approving large-scale purchasing projects or matters; (ii) reviewing purchasing plans, including purchasing methods, potential suppliers, composition of tender evaluation teams, tender evaluation rules, number or scope of tender candidates, composition of the tendering team, the tendering rules, number or scope of tender winners and other matters; (iii) listening to and reviewing analysis reports of the Bank's purchasing and tendering; and (iv) reviewing major issues or disputes arising from the Bank's purchasing and tendering process.

As of the Latest Practicable Date, the Procurement and Tendering Management Committee consisted of five members and was chaired by Mr. Ye Jianguang.

**Emergency Response Management Committee (突發事件應對管理委員會)**

The Emergency Response Management Committee is primarily responsible for (i) circulating and implementing the plans and policies for emergency response management formulated by the Board; (ii) coordinating the work of emergency management such as emergency handling of urgent cases, financial service support and emergency protection; (iii) considering and approving the emergency handling plans, monitoring the emergency drills and reviewing the drill results reports on a regular basis; (iv) considering and approving the financial service solution in response to emergency; and (v) conducting post assessment on the actual effects and risk condition of financial services and measures for handling emergency.

As of the Latest Practicable Date, the Emergency Response Management Committee consisted of 17 members and was chaired by Mr. Fu Qiang.

**Product Innovation Committee (產品創新委員會)**

The Product Innovation Committee is committee under the operation management department of the headquarters and is responsible for the organization and decision making on product innovation. Its major duties include the approval of annual product innovation proposals and their modification or contingent arrangement. It is also responsible for discussion and approval of major product innovation projects and shall coordinate all lines of business of the Bank to participate in production innovation and development.

As at the Latest Practicable Date, the officer-in-charge of the Product Innovation Committee was Mr. Chen Wei. The members of the committee included representatives from strategic customer department, corporate banking department, retail banking department, consumption finance and credit card department, private banking department, international business department, digital finance department, information technology department, financial market department, investment banking and wealth management department, SME finance department, comprehensive risk management department, internal control and compliance department, audit department, operation management department and the treasury department.

**DEPARTMENTS RELATING TO RISK MANAGEMENT**

**Comprehensive Risk Management Department (全面風險管理部)**

Based on its practical needs and responsibilities, the Comprehensive Risk Management Department has adopted the organizational structure of "one department and three centers (一部三中心)". The three centers are the Comprehensive Risk Management Center, Credit Risk Management Center and Legal Affairs Management Center.

The Comprehensive Risk Management Center is mainly responsible for (i) preparation of mid to long term risk management plans and annual plans and comprehensive risk management policies and the preparation of comprehensive risk management work report; (ii) monitoring the compliance of risk appetite and limits; (iii) organizing the management of market risks (including the interest rate risk and foreign exchange risk of trading books); (iv) conducting stress test and improvement of stress test reports mechanism; (v) participating in the development of risk management procedures and control measures of new products and new business; (vi) management of information technology risk and business sustainability; and (vii) establishing working mechanism for financial stability liaisons.

The Credit Risk Management Center is mainly responsible for (i) participating in the development and supervision of the implementation of credit policy of the Bank and participating in the review of the credit product management policies of the Bank, organizing the post-disbursement inspection and preparation of risk prevention and eviction measures, organizing and implementing the quality risk classification of credit assets of the Bank; (ii) conducting assessment of credit asset quality and management of non-performing assets; (iii) determining regulation to govern the credit rating of branches; (iv) development, improvement and implementation of filing of credit and collateral records; (v) maintenance of credit management information system, corporate credit system, personal credit system and the registration and posting system of pledge of receivables; and (vi) determination of the credit business sub-authorization system.

The Legal Affairs Management Center is mainly responsible for (i) formulating annual plan of our Bank-wide legal affairs management; (ii) addressing and managing all of our Bank's civil and commercial, administrative and other legal disputes for our Bank; (iii) providing legal consultations and necessary supports; (iv) revision and supervision of all standard contracts and review all non-standard contracts; (v) participating in the negotiation of our Bank's major business activities, participating in drafting of major contracts in accordance with the needs of our Bank's business departments; and (vi) participating in the development of new products and business, and contributing relevant legal and compliance opinions.

**Internal Control and Compliance Department (內控合規部)**

The Internal Control and Compliance Department is responsible for the compliance, internal control, prevention of operation risk and offences and anti-money laundering by coordinating the internal control and compliance management system. The department is responsible for the supervision of internal control of the Bank to make sure that internal control can cover the areas of business decision, execution and management. In addition, the department strengthens the requirements of the compliance management of the Bank and promotes the awareness of compliance, identifies and assesses the operation risk of the Bank and the management of operation risks. The department strengthens the case prevention education of the Bank, supervises the conduct of staff, identifies and monitors money laundry activities. The department is also responsible for directing and managing the internal control and compliance management of the risk management departments of each first-level branch, supervising and implementing various internal control and compliance work in branches.

**General Office (辦公室)**

The General Office of our Bank is the department that leads our Bank's reputation risk management. For details on reputation risk management, please see "— Reputation Risk Management".

**Credit Approval Department (授信審批部)**

The Credit Approval Department is responsible for coordinating the works between departments and has three centers under its supervision:

- Credit Review Center (授信審核中心): responsible for the review of credit business within the scope of authority of the headquarters;
- Credit Utilization Approval Center (用信審批中心): approve the utilization of credit that has been approved; and

- Integrated Management Center (綜合管理中心): responsible for the management of risk manager and risk monitoring of large loans.

The risk managers are managed by the Credit Approval Department, to which risk managers report directly.

**Audit Department (審計部)**

The responsibilities of the Audit Department is auditing and inspection. The functions of the Audit Department are divided into inspection, supervision and auditing; and identification and accountability of non-performing loans.

The department conducts internal audit activities independently and objectively and is mainly responsible for the audit, assessment and supervision of improvement of the operation, risk management, internal control and compliance and corporate governance of the Bank.

The Audit Department formulates its audit work plan at the beginning of each year, and allocates the annual audit works in accordance with the relevant requirements of the CBIRC, Guangdong Province Rural Credit Cooperatives Association* (廣東省農村信用社聯合社) and our Bank's standards and objectives.

**Assets and Liabilities Management Department (資產負債管理部)**

The Assets and Liabilities Management Department is responsible for the management of assets and liabilities, investment management, interest rate pricing management, pricing management of intermediary businesses, pricing management of internal fund transfer, liquidity risk management, bank account interest rate risk management, capital management, rating management and position management, supervision and support to the operation of subsidiaries, guidance and supervision of non-consolidated investment institutions.

## CREDIT RISK MANAGEMENT

Credit risk refers to the risk of loss due to a debtor or counterparty default or downgrade of credit rating, or a decline in the ability to perform its contractual obligations of repayment. The credit risks our Bank faces are mainly related to corporate loan business, personal loan business, and SMEs loan business. Our Bank has established and continually improved relevant systems for credit risk management to identify, measure, monitor, mitigate and control the risks arising from our Bank's credit business. Our Bank has implemented standardized credit review and extensive management policies and procedures.

**Credit Policy**

Our Bank is committed to striking a balance between achieving stable loan growth and maintaining a prudent risk management culture. Our Bank has developed detailed credit risk management guidelines based on provincial, national and international economic conditions, as well as government policy and regulatory requirements. Our Bank adjusts our Bank's guidelines in a timely manner to respond to changes in government policies, the economic environment and our Bank's own risk tolerance.

Our Bank adheres to five principles when conducting credit extension businesses.

(i) the principle of actively supporting industries with superior potentials while limiting those with inferior potentials: Our Bank supports high-quality customers with good industry prospect, strong shareholder strength, sustainable operation ability and low risk and projects that meet the requirements of industrial technology upgrade while restricting customers and projects that are not up to the standard in environmental protection, low in production capacity, low in product added value and high in risk;

(ii) the principle of strict access: Our Bank carefully examines the borrower's qualification, guarantor's guarantee qualification and customer's asset status in accordance with the industry and customer access requirements;

(iii) the principle of "maintain spending in some areas while cut spending in other areas (有保有壓)": Our Bank continues to strengthen our Bank's support to industries and enterprises such as "modern agriculture, rural areas and farmers", fully mortgaged enterprises, municipal high-quality project enterprises, large-scale key enterprises, fast growing enterprises, listed enterprises and enterprises that could go public in the future, green environmental protection, energy conservation and emission reduction, industries focusing on pollution prevention and control, clean energy, high-end equipment manufacturing, franchise and special operation. While our Bank strictly controls or prohibits credit extension to the "two high and one surplus (兩高一剩)" industries, policy restricted industries, hotel and entertainment industries, industries and enterprises in the process of reducing capacity and inventory and deleveraging, enterprises violating laws and regulations on environment and safety production, enterprises withdrawing from other banks or financial institutions and local financing platforms;

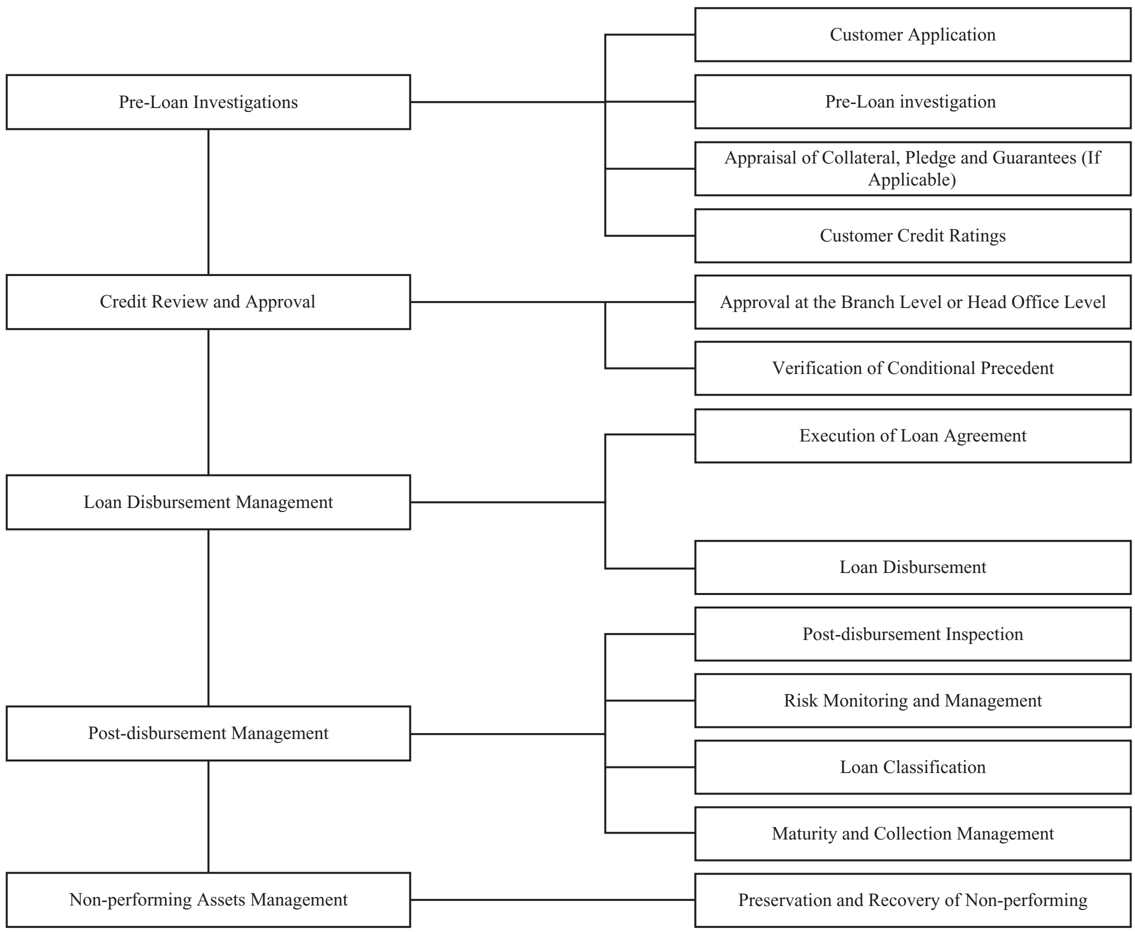
(iv) the principle of risk control: Our Bank focuses on the realizability and value preservation of collaterals, retains high-quality collaterals loans, optimizes and adjusts general collaterals loans, compresses low-quality collaterals loans, and further improves the proportion of collaterals with better risk mitigation ability; and

(v) the principle of authenticity of use: Our Bank strictly checks the authenticity of industry investment, ensures the authenticity of the use of credits extended, and increases the support of credit funds to the real economy.

Based on the business prospect of different industries, our Bank has developed credit guidelines to classify credit origination preference into five categories: "strongly supported" "supported", "prudent", "restricted" and "prohibited". Our Bank prioritizes allocation of our Bank's credit resources to the industries in the "strongly supported" and "supported" categories, such as industries that can effectively mitigate risks associated with economic cycles such as medical and health and industries with strategic importance such as new material and high-end equipment manufacturing. Our Bank provides calculated credit support to industries in the "prudent" category, such as industries relating to textile, lighting, and paper making. The "restricted" category and "prohibited" category include the industries expressly restricted or prohibited by PRC Government and clients who our Bank believes do not meet the requirements of credit extension. For the "restricted" category and "prohibited" category, Our Bank refrains from granting new credit and has gradually reduced the amount of outstanding credit extended to the relevant clients. Examples of industries in the "restricted" and "prohibited" categories include heavy industry such as steel, cement, and mining.

Our Bank currently has 17 industries in the "strongly supported" category, 27 industries in the "supported" category, 16 industries in the "prudent" category, 10 industries in the "restricted" category, and 9 industries in the "prohibited" category.

**Credit Risk Management of Corporate Loans**




***Pre-Loan Investigation***

*Customer application and pre-loan investigation.* After our Bank's corporate customer submits a credit application, our Bank will start the pre-loan investigation process. Our Bank adopts a "two-person investigation" mechanism which requires two account managers to conduct pre-loan investigation as a team and offer their independent assessment.

The pre-loan investigation mainly uses (i) on-site investigation which includes visiting the applicant's business premises and inspecting its manufacturing equipment, inventories, value-added tax invoices and utility bills for the purpose of verifying their actual business operations, and (ii) indirect investigation, which combines qualitative and quantitative measurement methods to provide basis for the loan business approval in order to obtain comprehensive and objective customers information. Our Bank usually requires the applicant to provide the necessary supporting documents, such as its organizational documents, business licenses/certificates and recent financial statements. If the loan is secured by collaterals, our Bank also requires the applicant to provide, among other things, proof of ownership, information about the guarantor, and the relevant supporting documents. Our Bank's account managers will review the documents in accordance with our Bank's established standards and verify their authenticity and validity.

When conducting pre-loan investigation, our Bank usually considers the following factors: (i) the inherent risks of the industry that the borrower operates in; (ii) the comparative competitiveness and growth rate of the borrower in its respective industry; (iii) the financial condition of the borrower which is assessed by analyzing its cash flows, revenue, assets and liability; (iv) intended use of the loan proceeds, (v) the credit history of the borrower; and (vi) if the loan is secured, the credit worthiness of the guarantor and the value of the collateral pledged.

*Appraisal of Collateral, Pledge and Guarantees.* If the loan is secured with collaterals, our Bank will conduct assessment on the collateral before approving a secured loan application. Our Bank's internal policies define acceptable and unacceptable types of collateral, as well as assessment procedures and criteria for determining the loan-to-value ratio, which is a measure that compares the size of the loan to the value of the collateral.

Our Bank requires the customers to provide detailed information and documentation of the collateral to be pledged, which, depending on the type of asset, may include (i) title certificates and other relevant documents indicating control over the underlying assets; (ii) for corporate mortgagor, its business certificate, company charter and relevant shareholder resolutions or resolutions of the Board of Directors in respect of pledge of collateral; and (iii) for personal mortgagor, his or her identification documents.

When necessary, our Bank hires a qualified third-party appraiser to issue a collateral value report. Our Bank further reviews the assessment report issued by the third-party appraiser to ensure that it reflects the true value of the collateral.

To determine the maximum loan-to-value ratio for different types of mortgages, our Bank takes various factors into account, including the credit risk of the loan, the valuation of the collateral, the devaluation risk of the collateral, the applicability of the collateral, and historical fluctuations in the collateral price. The maximum loan-to-value ratios of the main collateral and pledge securing our Bank's loans are as follows:

| Type of collateral and pledge | Maximum Loan-to-Value Ratio |
|---|---|
| **Collateral** | |
| Real estate – residential | 70% |
| Real estate – commercial | 70% |
| Machineries | 30% |
| Means of transportation | 40% |
| Mining right | 40% |
| Forest rights | 40% |
| Land use rights of collective land for operation | 40% |
| **Pledge** | |
| Wealth Management Products | 95% |
| Certificates of deposit | 95% |
| Treasury bonds (certificate bonds and saving bonds) | 95% |
| Bank acceptance bills | 90% |

| Type of collateral and pledge | Maximum Loan-to-Value Ratio |
|---|---|
| Precious metal | 80% |
| Inventories | 30% |
| Circulating shares of a public company (component of the CSI 300 Index) | 60% |
| Circulating shares of a public company (not component of the CSI 300 Index) | 50% |
| Intellectual properties | 20% |

The Audit Department organizes the audit and supervision of collateral and file management on a regular basis, and the audit scope mainly includes: (i) whether the collateral accepted conforms to our Bank's standards; (ii) whether the appraisal value of the collateral is fair and whether it is revalued regularly as required; (iii) whether the contents of the collateral are consistent with those of the registration authority; (iv) whether the warrant is kept in strict accordance with the relevant provisions of the file management measures; (v) whether the collateral information entered into the system is accurate; (vi) whether collateral preservation and realization follow the principle of minimizing credit loss of our Bank; (vii) whether the elements of mortgage (pledge) contract are complete and whether the filling is standard; and (viii) whether the file management meets the requirements.

Our Bank's head office and branches will timely put forward rectification requirements for the non-compliance operation, overestimation of collateral value, loss of warrants, loss of collateral or inaccurate collateral information found in the inspection process, and order relevant personnel to make corrections within a time limit.

*Customer Credit Ratings.* Our Bank follows the operational principle of rating the customer first, then granting the loan. In our Bank's loan business, the receipt of all necessary documents to the satisfaction of and completion of the pre-loan investigation is the prerequisite for loan approval to our Bank's corporate customers. Customers with unsatisfactory rating or no rating cannot initiate credit application with our Bank. Our Bank utilizes different sets of customer and guarantor rating standards customized for different industries, so as to control risks and optimize the loan disbursement structure. Our Bank rates our Bank's corporate customers in ten categories, namely AAA, AA, A, BBB, BB, B, CCC, CC, C, and DDD.

Our Bank's credit rating system utilizes 12 different models. The system adopts the method of quantitative and qualitative analysis to accurately and objectively evaluate the risk of default for each customer and guarantor and determine the customer and guarantor's credit rating in a systematic and competent manner.

***Credit Review and Approval***

The Bank assesses the credit ability of each branch according to the credit scale, credit quality, management level, quality of employees, and grants different level approval authority accordingly. To optimize the balance between development and risk management, our Bank adjusts credit review and approval authority from time to time.

For a corporate loan application, if it is within the authority of the first-level branch, the risk manager in that branch will issue a review report and submit it to the credit approval group of that first-level branch for deliberation.

The final determination on loan approval is made by the head of that first-level branch after the submission by the secretary of the credit approval group of that first-level branch.

If the loan is beyond the authority of the first-level branch, the risk manager will issue a risk analysis report and submit it to one of the business departments at the head office based on the nature of the loan application. The corresponding department will issue an opinion, and then submit it to the Credit Approval Department at the head office for review. After the Credit Approval Department issues its review opinion, such opinion will be submitted to the Loans Review Committee under the senior management for review. The secretary of the Loans Review Committee will summarize the opinions of each member and then issue the committee's final decision to the first-level branch in the form of "credit decision table".

***Loan Disbursement Management***

Our Bank strictly follows the two core principles for loan disbursement: (i) integrity of the system, which is to conduct loan disbursement according to our Bank's internal regulations and standardized process and (ii) prevention of risk, which is to ensure the safety and risk management of the loan.

Loan application shall be examined by the customer manager of the first-tier sub-branch who shall initiate the credit check before the application is recommended by the president of the first-tier sub-branch for consideration by the Credit Utilization Approval Center. Loan application shall be approved by the competent officer of the Credit Utilization Approval Center if such application is within his/her authority. If the loan application is beyond the authority of the Credit Utilization Approval Center, the approval of the application shall be determined by the vice president or president of the Bank, as appropriate, whose decision shall be final.

***Post-Disbursement Management***

Post-disbursement management refers to the credit management from the time of loan disbursement to the time of principal and interest recovery or the end of credit business. The purpose of post-loan management is to understand the changes affecting the borrower's ability to repay and, if necessary, take timely remedial measures to ensure the safe recovery of loan.

Our Bank's post-disbursement management has a clear goal of understanding the changes affecting the borrower's ability to repay the loan and taking timely and proper remedial measures to ensure the safe recovery of the loans.

Our Bank follows six fundamental principles in our Bank's post-disbursement management: (i) clear responsibility and cooperation, which means that the relevant departments at the head office and first-level branches are given clear responsibilities and there should always be a close coordination and communication when implementing the post-disbursement management between the head office and first-level branches; (ii) clear categorization, which refers to the implementation of differentiated, focused, and targeted post-disbursement management depending on factors such as customer type, business type, risk degree and repayment ability; (iii) meticulous inspection, which means that the post-disbursement inspectors should always conduct in-depth and comprehensive inspections of the borrower's and guarantor's business operations and mortgage (pledge) conditions through a combination of on-site inspection and off-site inspection, and routine inspection and special inspection for the sake of making a reasonable and accurate evaluation of the potential loan risk; (iv) truthful disclosure, which refers to the timely and truthful disclosure of the existing or potential risks of our Bank's loan extension found by the post-disbursement inspectors during the inspection process without such risks being concealed, trivialized or exaggerated; (v) timely early warning, which means the establishment and improvement of early risk warning mechanism through the timely detection and processing of early risk signals based on the constant monitoring of the borrower's and guarantor's business operations and financial conditions; and (vi) prompt disposal which means that when the risk cannot be mitigated, the plan of disposing the relevant non-performing loans should be formulated promptly to minimize the losses.

Our Bank's post-loan management primarily consists of post-disbursement inspections, risk monitoring and management, loan classification and maturity and collection management.

***Post-Disbursement Inspection***

Post-disbursement inspection includes three aspects: (i) loan issuance inspection, (ii) routine inspection which includes both on-site and off-site inspection, and (iii) special inspection.

The inspection of loan issuance refers to the first inspection after the issuance of corporate loan. Within 15 days after the loan is granted, the inspector from the risk management department of the first-level branch where the loan is applied and granted will check the use of loan to ascertain (i) whether the funds is used for illegal criminal purposes related to money laundering; (ii) whether the fund is used in a prohibited way; and (iii) whether the information disclosed in the investigation report submitted by the account manager is sufficient and accurate.

Routine inspection refers to the routine inspection on applicant's production and operation, solvency and loan guarantee. Routine inspection is mainly divided into on-site and off-site inspection.

Routine inspection primarily covers the following subjects: (i) basic information of the borrower: this includes borrower's profile, annual credit financing situation, management change; (ii) operation of the business: this includes production and operation of the business, changes of the operation scale of the business. Operation information of the business includes documents such as water and electricity bills, goods inventory record, and pay slips; (iii) financial analysis and risk information: these include financing information of the business in our Bank and other banks; (iv) account supervision: this includes, without limitation, analysis and inspection of major capital flows, such as returning capital accounts, project income accounts, and repayment accounts. Cross-validation is carried out in combination with report data and actual business operation; (v) financing projects: for uncompleted projects, it is necessary to know the progress, payment and quality of the project, the difference between the actual capital input and the budget, as well as the availability of follow-up capital; for completed projects, it is necessary to know the sales, operation, management and capital withdrawal of the project; (vi) purpose of the loan: whether the use of credit funds is legal and compliant, and whether it is consistent with the loan application; (vii) credit records: this includes the borrower's credit record, repayment record, external guarantee and loan risk classification from other banks; (viii) cooperation between the customer and our Bank: including the day-to-day communication, the relevant loan agreement and cooperation attitude between the customer and our Bank; (ix) inspection of the guarantor: focusing on guarantor's operation, financial status, credit records, capital flow and ability to repay; (x) inspection of the collaterals; (xi) inspection of the pledges and entrusted items; and (xii) inspection of environmental and social risks inspection.

Special inspection refers to the targeted inspection carried out for certain special purposes. It mainly includes (i) carrying out various risk screening according to the requirements of the head office or governmental regulatory bodies; (ii) investigating specific risk signals found through off-site inspection; (iii) inspection of certain industries or certain types of loans as results of political, economic and policy adjustments; (iv) upon discovery of external or media information which indicates the existence of major problems, a special inspection is warranted; and (v) other matters requiring special inspection.

***Risk Monitoring and Management***

Risk monitoring and management refers to the active and dynamic management process of using a variety of information channels and analysis methods to identify, analyze and measure the early warning signals of credit customers, and take appropriate measures in time to resolve risks. Our Bank conducts risk monitoring and management in accordance with the following six principles:

(i) the principle of comprehensiveness: risk monitoring and management work involves many levels and positions of branches and head office, and all of our Bank's members have early warning responsibilities;

(ii) the principle of hierarchical management: our Bank's head office and first-level branches have set up corresponding decision-making and disposal levels for early-warning signals of different levels, so that they have clear responsibilities, division of labor and coordination;

(iii) the principle of timeliness: responsible personnel need to discover early warning signals and report such signals in a timely fashion;

(iv) the principle of quick response: for the early warning signals to be effective, response actions should always be taken. In case of emergency, relevant personnel is required to act promptly in accordance with the specified procedures based on the principle of maximizing the preservation of value of credit assets;

(v) the principle of information exchange: after the risk warning signal is verified, credit business management personnel should be notified according to relevant regulations, so as to realize the information sharing between the head office and the first-level branches; and

(vi) the principle of confidentiality: risk warning is an important part of post-loan management and an internal risk prevention measure of our Bank. As a result, relevant information can only be reported level by level according to the system and cannot be disclosed to the public.

Our Bank's head office and branches have established and continue to improve the risk early warning mechanism. The Bank has adopted a credit risk alert system to identify the risk of customers by using big data technology to analyze internal and external data. The credit risk alert system is established on the basis of a set of indices and to raise risk alert on customer according to any of the indices. Risk signals can be identified from external data analysis or from off-line inspection by our credit inspection officers. The risk early warning system can be operated on line. Risk alert signal is initially inspected by the responsible officer who shall prepare a contingency plan accordingly for confirmation by the relevant approval officer for implementation. Risk alert can only be withdrawn upon completion of the contingency plan.

Our Bank actively monitors, identifies and controls any potential or actual risks that may damage the quality of our Bank's assets. The risk management-related departments regularly conduct comprehensive analysis of our Bank's risk information and regularly evaluate our Bank's risk exposure. Our Bank analyzes all factors that may affect the borrower's ability to repay, including financial status, revenue stream and use, guarantees, and non-financial factors such as industry-related risk, operation risk, management risk, social risk, repayment history, and willingness to fulfill the obligation of repayment.

***Loan Classification***

In determining the classification of our Bank's loan portfolio, our Bank applied a series of criteria that were derived from the CBIRC Guidelines. Our Bank classifies our Bank's loans into five categories, namely, normal, special mention, substandard, doubtful and loss in accordance with the level of overall risk of the loans. Loans in substandard, doubtful and loss classifications are considered non-performing loans. Through the continuous monitoring and analysis of the borrower's financial risk, non-financial risk, cash flow, guarantee and other factors, our Bank's classification mechanism can accurately reflect the borrower's repayment ability, willingness to pay back loan, and fluctuation of risk in each specific period. Our Bank sets up a three-level classification system to accurately identify the risk level of loan assets, namely, (i) the Loans Review Committee at our Bank's head office is the ultimate determining body of the loan classification; (ii) the Comprehensive Risk Management Department at our Bank's head office is responsible for the daily management of loan classification in accordance with the principle of separation between risk management and loan extension; and (iii) the classification and identification group at each branch is consisted of the vice president in charge of loan business of branch, the head of marketing department and risk management department, and other relevant personnel.

Our Bank's loan classification system adopts the method of hierarchical authorization. Each level has its defined authority and if the loan under review for classification is outside such authority, such loan will be submitted to a higher level for review. The Loans Review Committee at our Bank's head office is the ultimate body for loan classification. Review of loans associated with our Bank's ten largest borrowers, first-time loss classification of loans, and loans that have significant dispute regarding their proper classification is reserved exclusively for the Loans Review Committee.

Our Bank closely monitors the quality of loans and may reclassify our Bank's corporate loans based on the results of routine (quarterly) and *ad hoc* inspections. Our Bank will re-exam and re-rate each of our Bank's corporate loan customer who has credit balance with us on a yearly basis. The risk classification will be adjusted according to the specific situation at the time of re-examination which includes principally any material changes in the customer's financial condition and business operation. Specific measures will also be taken according to changes in customer's risk situation and changes in its credit rating during post-disbursement period to prevent and resolve the potential credit risks unforeseen at the time of loan disbursement.

When managing our Bank's collaterals, our Bank has adhered to the following four principles: (i) legitimacy, which means that our Bank's collateral management complies with the relevant national laws and regulations; (ii) effectiveness which means that our Bank's collaterals all have valid registrations and filings and the valuation of our Bank's collaterals are reasonable and easy to dispose and realize; (iii) prudence, which means that our Bank takes full account of all possible risk factors, give priority when taking collaterals with those assets that have high risk mitigation capability, can be easily disposed and realized and have legal and effective registration, prudently accept those collaterals that are non-standard and difficult to monitor and dispose, and prudently assess the value of collateral and reasonably set the loan-to-mortgage rate; and (iv) subordination, which means that collaterals should always be the second source of repayment for credit risk mitigation which is subordinated to the sufficiency and solvency of debtor's first source of repayment and should be able to effectively cover our Bank's credit risk exposure.

Specifically, our Bank continuously monitors the custody, use, value, liquidity and other risks of the collateral, and issue early warning signals in time in case of any of (i) the ownership of the collateral is changed or disputed; (ii) the value of collateral decreases, exceeding the approved loan-to-mortgage rate; (iii) the priority rights of compensation such as construction project funds and land transfer fees set on the collateral have changed; (iv) the collateral is damaged, lost, expropriated or no longer eligible for effective mortgage (pledge); (v) the mortgaged construction in progress is completed or the mortgaged goods form new property; (vi) without consent, the collateral is donated, transferred, leased, transferred or disposed of in any other way; (vii) collateral is repeatedly mortgaged (pledged); (viii) the collateral is frozen, sealed up or seized by the relevant authorities according to law; (ix) the collateral warrant has expired or the registration has become invalid; (x) the insurance of the collateral expires, or is interrupted or cancelled; (xi) the mortgaged land use right has been suspected to be idle or recognized as idle land by the competent department of the land and resources; and (xii) other major risks affecting repayment.

In principle, our Bank evaluates the collateral with relatively stable value such as real estate on a yearly basis. For the collateral with large price fluctuation such as inventory and storage, our Bank conducts revaluation on these collaterals on a semi-annual basis. However, our Bank will conduct immediate reevaluation of collateral when (i) the fair market price of the collateral has declined substantially; (ii) the collateral has been transferred to the risk management department by the business department; (iii) there is a breach of the loan agreement; (iv) the loan classification degrades from normal to bad; and (v) other major risk events that may substantially affect the value of collateral.

***Maturity and Collection Management***

In general, our Bank requires our Bank's account managers to notify the borrowers of upcoming repayment obligation by written notice within thirty days before the due dates. Our Bank requires our account manager to notify the borrowers five days before the date of interest settlement to make sufficient deposits into their payment accounts if the funds the borrowers held in our Bank are not sufficient to cover the relevant debt obligations.

If the loans are overdue, our Bank generally requires our Bank's account managers to send written reminders to the borrower in default and the guarantors. Should there be no response from the borrower, other measures such as taking remedial measures to facilitate the repayment of loans, filing lawsuits, or collecting payment in person may be implemented by our Bank.

***Non-performing Assets Management***

Non-performing assets refer to the non-performing credit assets and non-credit assets formed in the operation of our Bank or obtained through other means, such as non-performing debt, equity and physical assets. The management of non-performing assets refers to the collection, analysis and processing of information related to non-performing assets, and, through scientific management methods and processes, the implementation of comprehensive management and optimal disposal of non-performing assets in accordance with the inherent characteristics of non-performing assets.

The management of non-performing assets includes daily monitoring and inspection, collection and disposal of non-performing assets. In particular, our Bank carries out disposal of non-performing assets prudently, and careful selection of disposal method, pricing, and disposal plan, with the goal of resolving the risk arising from the non-performing assets, improving the quality of assets, and promoting the stable operation and sustainable development of our Bank.

Our Bank adheres to the following six principles when conducting management of non-performing assets: (i) the principle of compliance with laws and regulations, which means that the management and disposal of non-performing assets must strictly abide by laws, relevant rules and regulations, and standardized operational procedures of our Bank; (ii) the principle of true disclosure, which means that the management and disposal of non-performing assets must truthfully reveal and reflect the risks associated with the underlying assets. Falsifying or covering up the risks of assets for any reason or in any way is strictly prohibited; (iii) the principle of minimal impairment, which means that after assets become non-performing assets, relevant management and preservation measures should be promptly taken to prevent the further devaluation of non-performing assets, and timely collection and disposal should be carried out to truly and effectively reduce the risk of assets, minimize the loss, and maximize the recovery rate of such non-performing asset; (iv) the principle of compensation , which means that the head office should gradually and systematically improve the level of risk provision, and timely dispose and digest the disposal losses; (v) the principle of avoidance of conflict of interests, which means that if the staff who is in charge of managing the non-performing assets has a direct or indirect relationship with the debtor, guarantor, asset transferee, or entrusted intermediary of a particular non-performing asset or, is found to have a direct responsibility for the formation of such non-performing asset, or may have an impaired capacity to effectively perform his or her duty due to any circumstances, he or she should always avoid participating in the management of such non-performing asset; (vi) the principle of cost effectiveness and risk control, which means that in selecting and applying asset disposal methods, we should always conduct cost-benefit analysis and risk control management, make reasonable analysis and comprehensive comparison, and select the best and feasible disposal methods to reduce losses arising from the non-performing assets.

Specifically, our Bank recovers non-performing assets through a variety of means, including

(i) standardized collection procedures, which mainly includes direct collection, clearing by agreement, account deduction. Our Bank monitors the change of repayment ability of the debt related parties, timely recovers the debt directly from the debt related parties through on-site collection, telephone collection or sending collection notice, and recover the capital and interest of the assets as much as possible;

(ii) legal proceedings and arbitration, which mainly refers to the realization of our Bank's rights as creditor through legal means and judicial procedures. Legal settlement and disposal include filing lawsuit or arbitration, property preservation, application of payment order, application for compulsory execution, realization of security right, disposal the collaterals and seeking recourse from the loan guarantor;

(iii) contracting third-party professionals to collect on behalf of our Bank, which refers to the non-performing assets that cannot be recovered through the internal collection procedure or legal means. Our Bank will sign a collection agreement with a third party which will act as our Bank's agent to collect the non-performing assets;

(iv) reduce or waive of interests, which refers to the recovering our Bank's rights as the creditor by means of interest reduction or waiver for qualified borrowers;

(v) bankruptcy liquidation, which refers to recovering all or part of our Bank's right as the creditor by declaring our Bank's right as creditor to the bankruptcy receiver and liquidating all the property of the debtor;

(vi) restructuring, which refers to the reorganization of debtor's assets through methods such as asset transfer, merger, acquisition and spin-off so as to realize the transformation of non-performing assets from high-risk to low-risk or normal assets;

(vii) collecting debt in kind, which refers to when a debtor or a third party uses real assets or property rights that it owns or has the right to dispose of to offset all or part of the debt owed by the debtor to our Bank when such debtor unable to repay the debt with cash and cash equivalents;

(viii) transferring non-performing assets to policy banks, commercial banks, financial companies, trust and investment companies and other financial institutions and public investors;

(ix) doubtful debt write-off, which refers to write-off of non-performing assets that cannot be recovered after necessary measures have been taken according to the prescribed procedures and conditions;

(x) package disposal, for some of the non-performing assets that are difficult to dispose of or have high disposal cost, our Bank bundles and packages them to be processed so as to speed up the disposal progress and improve the overall efficiency and recovery rate of asset disposal;

(xi) internal bidding, our Bank holds open bidding of the non-performing assets to our Bank's employees, and the winning bidder performs the contract to recover the non-performing assets; and

(xii) converting debt into equity, which means that our Bank converts existing debt to equity or invest in shares in kind in accordance with relevant laws and regulations, and with the consent of the regulatory authority.

**Portfolio Management**

***Credit Risk Management for Loans to Real Estate Industries***

Our Bank extends credits to real estate developers in accordance with the national policies and guidelines for real estate development and financing, and our Bank's internal policies. Our Bank only extends credits to borrowers with certain qualifications. These qualifications include: (i) the borrower must be a real estate development enterprise approved and registered by the relevant regulatory bodies and qualified for real estate operation and development; (ii) the proportion of self-owned funds in the total investment of project should conform to the latest national regulations; (iii) the equity structure of the borrower is clear, the internal management is standardized, the financial situation is satisfactory, and the information disclosure is transparent; (iv) when the project exceeds the original budget, the shareholders of the borrower should have the ability to re inject capital to support continuance of the project; (v) there is no bad record of borrower or major shareholders or actual controllers of the borrower with other banks or enterprises; (vi) the department qualification of the borrower to develop real estate should be sufficient; and (vii) the borrower is willing to accept and comply with all requirements under our Bank's standardized credit management.

**Credit Concentration Management**

Our Bank closely monitors the balances of loans granted to single customer and group borrower to effectively control the concentration of credit risk generated by loan business expansion and ensure compliance with applicable laws and regulations. The Credit Approval Department at the head office is primarily in charge of monitoring the credit concentration risk of our Bank.

Our Bank requires that the total loan balance provided to a single customer should not exceed 10% of the net capital of its institution (our Bank or our affiliated banking and financial institution). The total balance of credit granted to a single group customer should not exceed 15% of the net capital of its institution.

**Credit Risk Management of Personal Loans**

Our Bank's credit risk management procedures for personal loans include pre-loan investigations, credit review and approval loan disbursement management and post-loan management.

***Customer Application and Pre-loan Investigation***

Upon receipt of a personal loan application, due diligence on the applicant will be conducted. A variety of information will be assessed and considered to decide the applicant's credit worthiness such as basic personal information, income, intended use of proceeds, methods through which the loan will be repaid, and collateral information, (if any). An on-site interview with the account manager is also mandatory so as to avoid fraudulent applications.

Based on the combined information received from the due diligence works, our Bank's account manager will produce a due diligence report to be submitted for approval.

***Credit Review and Approval***

For personal loans, if the application is within the authority of the first-level branch, then such application is approved by the authorized person of the first-level branch; if the application is determined to be outside the authority of the first-level branch, the risk manager needs to issue a risk analysis report and submits it to the relevant business department of the head office for approval; if the application is not within the authority of the relevant business department of the head office, then such report will be sent to Credit Approval Department at the head office for review. After the Credit Approval Department issues its opinion, such opinion will be submitted to the Loans Review Committee under the senior management for deliberation. The secretary of the Loans Review Committee will summarize the opinions of the members of the senior management and issue the summary to the first-level branch in the form of "credit decision table".

***Loan Disbursement***

The disbursement procedure for personal loans is similar to that of the corporate loan disbursement. After signing all the necessary agreements including the main loan agreement and the satisfaction of the conditions precedent specified in the agreement the fund will be disbursed to individuals.

***Post-disbursement Management***

Similar to that of corporate loans, routine inspections and special inspections after the disbursement of the personal loans are conducted. Relevant information of the applicant is constantly evaluated. If the personal loan becomes overdue, our Bank will take a wide range of actions to recover on the defaulted loans including written notices, lawsuit, and repossession of collaterals.

## CREDIT RISK MANAGEMENT FOR TREASURY BUSINESS

Risks involved in our Bank's treasury market business mainly include risk in interbank transactions, debt security investment, rights to earnings on credit assets and fund investments.

### Credit Risk Management for Interbank Business

The Proprietary Trading and Investment Decision Committee (資金交易與投資決策委員會) and its Debt and Interbank group (債券與同業授信小組) form the main body that preside over the credit risk management for treasury business. They are responsible for evaluating and analyzing the credit risk status of interbank financial institutions and considering and determining the credit line of interbank financial institutions. The Financial Market Department, Investment Banking and Financial Management Department and International Business Department shall collect information of the relevant institutions and prepare pre-investment analysis report for consideration by the risk manager of the Credit Approval Department who will provide opinion on risk management to the Credit Approval Department for consideration before submitting to the Debt and Inter-bank Credit Approval Team for consideration.

Our Bank collects and analyzes the financial data and credit information to evaluate the size and quality of assets profitability and credit strength of financial institutions so as to determine the reasonable credit limit for each of the customer. The credit limit must be obtained before any treasury business can be carried out (except debts business) . For rediscounted bills, our Bank takes priority in utilizing the credit limit granted by the acceptance bank. If the credit limit granted by the acceptance bank is insufficient, our Bank will utilize the credit limit granted by the bill discounting bank. No transaction may be carried out if the particular interbank financial institution has exceeded its credit limit assigned by our Bank.

### Credit Risk Management for Debt Securities investment

Our Bank exerts prudence in assessing the credit risks arising from our Bank's debt securities investment. Our Bank invests in debt securities and credit securities issued by the PRC central and local government and policy banks. The interest rate securities include national bonds, policy financial bonds and central bank bills. Credit securities refer to securities issued by entities other than the central government, local government, PBoC and policy banks.

Our Bank has established and continuously improved a debt securities investment system. Our Bank's debt securities investment is based on the following six principles: (i) legal and compliant principle: the debt securities investment is in compliance with applicable laws, industry regulations and standards and is truthful and equal; (ii) safety principle: our Bank shall fully understand the general economic conditions in the PRC and all factors that may affect the credit rating and management of debt issuers so as to ensure the safety of the principal of our Bank's investment; (iii) profitability principle: our Bank shall prefer the investment of debt securities providing stable interest income or investment income; (iv) liquidity principle: our Bank prefers the investment of debt securities which are easily liquidated at relatively low cost; (v) diversity principle: our Bank invests in various qualified debt securities to diversify the risk and secure stable income; and (vi) risk indicator matching principle: our Bank must regularly monitor the risk indicators of debt securities against our Bank's liquidity risk and interest risk to prevent the over investment in debt securities. For corporate debt securities, our Bank has strict credit investigation and approval procedures.

**Credit Risk Management for Investment in Rights to Earnings on Credit Assets**

Our Bank's rights to earnings on credit assets investment is subject to a credit limit. In addition, our Bank conducts strict investigation of all investment products in the follow areas: financial condition and qualification of initial beneficiary and guarantor; the business and geographic coverage of the rights on earnings on credit assets products; duration, credit rating, target yield against the yield of credit products of same credit rating; risk protection level upon deterioration of credit rating; tolerance of deterioration of asset pool of the products; and credit enhancement provision such as shortfall payment or repurchase obligations undertook by the initial beneficiaries or third-party guarantors of such rights to earnings on credit assets when borrower defaults. The initial beneficiary generally has no payment or indemnification obligation against our Bank nor does our Bank have any other recourse against the initial beneficiary in case of default of the borrower, except in limited circumstances where such obligation has been expressly provided in the relevant transaction document.

Our Bank continuously monitors the credit risk of the products. The Business Department continuously monitor the products by (i) regularly collecting information on business analysis and payment of interest and principal; and (ii) reviewing operation review and payment of interest and principal of the products and take follow-up actions in the following manners. Our Bank continues to hold the investment of rights on earnings on credit assets if so suggested by the study. The Financial Market Department and Investment Banking and Wealth Management Department may sell the rights on earnings on credit assets in financial market provided that no investment loss will be incurred if so suggested by the study. If the conclusion of the study suggests not to hold such investment and the rights on earnings on credit assets cannot be sold in the market with incurring investment loss, the relevant department shall propose to the Proprietary Trading and Investment Decision Committee for decision on a final disposal plan.

**Credit Risk Management of Fund Investment**

Our Bank will determine the strategy and planning and evaluate the qualification of the fund manager before investment in fund investments. The evaluation includes but not limited to: experience of the investment team, operation, the position of the relevant industry and years of establishment. If approved, our Bank will apply for opening fund account with the fund manager. Our Bank will select the appropriate fund management team in accordance with the investment strategy and operation needs and determine the terms of repurchase and redemption. Our Bank will also manage the fund allocation and perform accounting and audit. Existing fund investments are regularly reviewed in respect of investment return.

Financial Market Department and the Investment Banking and Wealth Management Department are the front line departments responsible for the investment in funds and are responsible for (i) dealing with the acceptance and exit of fund management companies; (ii) determining the strategy and planning of investment in fund investments; selecting of fund products and determining the size of investment; (iii) subscription of fund, and monitoring the investment return regularly; (iv) conducting review of the risk and income of the portfolio of fund investments; (v) dealing with the redemption of fund investments and conducting audit of the sharing of profit during the period of investment; and (vi) monitoring the fund movement of subscription and redemption. The head office's Comprehensive Risk Management Department, as the middle office department of the fund investments, is responsible for (i) monitor the compliance of risk limit; (ii) to consider the application for inclusion and exclusion of fund managers to the black list and white list of fund managers; and (iii) to conduct legal review of the contracts in relation to public equity investment.

Our Bank conducts quarterly review of the fund managers and our Bank's investment in funds and prepares reports accordingly. The report includes, *inter alia*, the following information: the operation and risk of the fund management companies, the size, income and risk profile of existing investment. Our Bank will maintain the cooperation with the fund management companies if the report suggest so. The Financial Market Department and the Investment Banking and Wealth Management Department will immediately prepare an exit report for the termination of cooperation with the fund management companies for approval by the Proprietary Trading and Investment Decision Committee if the report suggests to exit according to the study. Our Bank shall arrange the redemption of the fund products if approved. The fund account shall be closed after termination of the business with the fund management companies.

## MARKET RISK MANAGEMENT

Market risk is the risk of loss in on- and off-balance sheet business arising from adverse movements in market prices. The market risks we are exposed to are primarily interest rate risk and exchange rate risk. Interest rate risk is the risk of loss arising from adverse changes in statutory or market interest rate. Exchange rate risk is the risk of loss arising from currency mismatch between the underlying assets and liabilities.

To effectively address the potential risks, our Bank has established a comprehensive and reliable market risk management system suitable for our Bank's business nature, scale and complexity. Our Bank's market risk management organizational structure consists of the Board of Directors and its Comprehensive Risk Management Committee, the senior management, the management department including, among other things, the Comprehensive Risk Management Department and the Asset and Liability Management Department, and business departments.

Our Bank's Board of Directors bears the ultimate responsibility for market risk management and ensures that we effectively identify, measure, monitor and control the market risks of various businesses. The responsibility of our Bank's senior management in market risk management include (i) timely measuring and adjusting the market risk level that our Bank can bear and reporting it to the Board of Directors for deliberation; (ii) formulating, regularly reviewing and supervising the implementation of market risk management policies, overall procedures and specific operating procedures, carrying out market risk limit management, and timely understanding the market risk level and management status; (iii) formulating the development strategy and asset liability structure adjustment strategy for all of our Bank's relevant businesses, and organizing the implementation of various business development and asset liability structure adjustment strategies; (iv) ensuring that our Bank has sufficient human and material resources and appropriate organizational structure, management information system and technical level to effectively identify, measure, monitor and control all kinds of market risks undertaken by all businesses; (v) regularly report to the Board of Directors on the market risk level, management status, and major changes of market risk; and (vi) regularly organizing and carrying out pressure test, reviewing the pressure test scheme design and test results, and improving the pressure test system. The Comprehensive Risk Management Department is responsible for overall planning of the Bank's market risk management. The Asset and Liability Management Department is responsible for managing bank accounts interest rate risk, proposing tools and methods for identifying, measuring and monitoring interest rate risks, and assisting the Comprehensive Risk Management Department in reviewing the operation and risk management procedures of new products and new businesses in our Bank's interest rate risk management. Business departments are primarily responsible for carrying out operations in accordance with the established market risk management policies and procedures.

## LIQUIDITY RISK MANAGEMENT

Liquidity risk refers the risk of failure to acquire sufficient funds in time or at a reasonable cost within a reasonable time to pay debt that reaches its maturity, fulfil other payment obligations and meet other funding needs arising from the business operations. Factors affecting our Bank's liquidity include changes in the maturity profiles of our Bank's assets and liabilities and the policies of PBoC, including changes in statutory deposit reserve ratio. The objectives of our Bank are to dynamically manage the liquidity with the principle of prudence, realize a balanced development of efficiency and liquidity, and to control the liquidity risk arising from maturity mismatch of assets and liabilities on the premise of ensuring liquidity safety and compliance with various liquidity regulatory indicators.

Strictly following the relevant PRC regulations such as the CBIRC's policies, our Bank deals with liquidity risks by:

- establishing an effective governance structure for liquidity risk management where our Bank's Board of Directors bears the ultimate responsibility for our Bank's liquidity risk management, our Bank's senior management formulates and evaluates the liquidity management strategies and policies, our Bank's Financial Market Department (金融市場部) and Assets and Liabilities Management Department (資產負債管理部) implement and supervise the actual operation of liquidity risk management, and other departments to corroborate and facilitate with the main liquidity risk management apparatus;

- clearly formulating policies, strategies and procedures for liquidity risk management, including the following nine aspects: (i) cash flow management, (ii) liquidity risk identification, measurement and monitoring, (iii) limits on liquidity risk exposure, (iv) daytime liquidity risk management, (v) pressure test, (vi) emergency plan, (vii) liability and financing management, (viii) high quality liquidity asset reserve management; and (ix) continuously monitoring and analyzing the potential factors affecting liquidity risk and the impact of other types of risk on liquidity risk;

- establishing an effective liquidity risk identification, measurement, monitoring and control system; and

- building a complete liquidity risk management technology and information system to accurately, timely and comprehensively measure, monitor and report potential liquidity risks.

## OPERATION RISK MANAGEMENT

Operation risk refers to risks that may be incurred as a result of inadequate or failed internal procedures, personnel or information technology systems, and external events. The operational risks of our Bank include legal risks but exclude strategic risks and reputation risks. The basic objective of our Bank's operational risk management is to establish and maintain a comprehensive operational risk management system to reduce the occurrence of operational risk events and control the operational risk financial losses or non-financial impacts within acceptable limits. Also, our Bank will ensure our business operations are in compliance with the law to provide a healthy internal operating environment for business development.

Our Bank's organizational structure for operation risk consists of our Bank's Board of Directors, senior management and relevant functional departments of the head office and first-level branches. Our Bank's Board of Directors has the ultimate responsibility for the supervision of effectiveness of our Bank's operation risk management.

## LEGAL RISK MANAGEMENT

Legal risk refers to the risk of loss of economic benefits or other damages due to violation or dissatisfaction of laws and regulations of our operation, or failure in our operation or disputes caused by external legal matters.

The objectives of our Bank's legal risk management are to focus on system and process construction, to form a long-term mechanism for legal risk management, and to gradually establish a comprehensive, standardized and dynamic legal risk management system. Our Bank aims to prevent and control legal risks in the entire process of business management. All departments and employees shall work together to bear the responsibility for the prevention and control of legal risks and to build up an effective control mechanism for legal risk management.

Our Bank follows the following five principles when conducting legal risk management, they are:

(i) the principle of prudent management: our Bank's legal risk management must be based on the premise of respecting the law and maintaining good faith, and the strategies and methods of legal risk management must not violate the obligatory rules and prohibitive rules of the law;

(ii) the principle of guidance by strategic objectives: our Bank's legal risk management should be closely combined with business development to promote the steady development of business and the realization of strategic objectives;

(iii) the principle of overall risk management system: the construction of legal risk management and its system should be carried out under the framework of comprehensive risk management, and should be integrated with other risk managements to improve the overall efficiency and effect of risk management;

(iv) the principle of combination of with operation and management: legal risk occurs in business management activities, therefore its identification, evaluation, control and management cannot be separated from business management activities. Therefore, it is necessary to identify risk, control risk and prevent risk events in business management process; and

(v) the principle of continuous improvement: our Bank's legal risk management should be adjusted and improved according to the changes of internal and external environment to achieve continuous improvement.

The Comprehensive Risk Management Execution Committee of our Bank is responsible for the formulation of legal risk management mechanism and implementation of measures. Other functional departments of the head office and branches are responsible for the execution and management of the legal risk management of their own departments and institutions.

The Comprehensive Risk Management Department is responsible for (i) establishing and improving the legal risk management policy; (ii) organizing and improving the legal risk management system; (iii) studying and proposing legal risk management reports and legal risk assessment reports for major decisions; (iv) organizing and coordinating the daily work of legal risk management; (v) organizing response and handling of legal risk events; (vi) guiding and supervising the legal risk management of all functional departments of the head office and branches; (vii) organizing and carrying out training related to legal risk management, cultivate legal risk management culture and concept;

**COMPLIANCE RISK MANAGEMENT**

Compliance risk refers to the risk of being subject to legal sanctions penalties, regulatory penalties significant financial loss and reputational loss as a result of failure to comply with laws, regulations, rules and internal rules and procedures. The objectives of our Bank's compliance risk management are to effectively identify, evaluate and proactively prevent, and to take measures to address compliance risks by establishing an effective mechanism of compliance risk management, thereby helping to ensure our Bank's compliance with laws and regulations.

The construction of our Bank's compliance management organizational structure meets the needs of business development strategy and risk management strategy. By clearly defining the compliance responsibilities of our Bank's Board of Directors, the Board of Supervisors and senior management, we ensure that compliance risks of our Bank are effectively managed and controlled.

Our Bank's Board of Directors is ultimately responsible for the compliance of our Bank's business management activities. The Board of Directors is responsible for (i) consider and approve the compliance policy and supervise its implementation; (ii) review and approve the compliance risk report prepared by the senior management for immediately elimination of compliance defect; (iii) authorize the Comprehensive Risk Management Committee, Audit Committee and other committees under the Board of Directors to conduct the daily supervision of compliance risk management. Our Bank's Board of Supervisors supervise the implementation of compliance risk management responsibilities of the Board of Directors and senior management. Our Bank's senior management is responsible for formulating and timely revising our Bank-wide compliance policy, submitting it to the Board of Directors for review and approval before implementation, and transmitting it to all employees; (iv) implementing the compliance policy, ensuring the compliance policy can be observed when the operation violates the compliance requirement, ensuring that appropriate corrective measures are taken in time in case of any violation, and investigating the corresponding responsibility of the person responsible for the violation; (v) appointing the compliance director and ensuring the independence of the compliance director; (vi) defining the responsibilities and organizational structure of the Internal Control and Compliance Department, providing sufficient man power, technology and resources for the performance of its responsibilities, and ensuring the independence of the Internal Control and Compliance Department; and (vii) reporting any major violations by the Internal Control and Compliance Department to the Board of Directors, its subordinate committees and the Board of Supervisors in a timely manner.

**Anti-money Laundering**

The Bank has established an anti-money laundering framework in accordance with the Anti-money laundering Law of the People's Republic of China (中華人民共和國反洗錢法), Guidelines for the Assessment of Money Laundry and Terrorism Financing Risks and Categorized Management of Customers of Financial Institutions (金融機構洗錢和恐怖融資風險評估及客戶分類管理指引) and other laws and regulations. The Bank has also established the relevant management system and operation procedures to identify, measure, monitor, alert and control the risk of money laundry during the entire operation of the Bank. The Board of Directors is the highest authority of Dongguan Rural Commercial Bank in respect of the decision on money laundry risk management and is responsible for the approval of strategy, policy and measures for money laundry risk event. The senior management is responsible for the execution of the anti-money laundering policy and system of the Bank and the coordination of the implementation of the Bank's anti-money laundering strategy, policy, system, procedure and measure by all departments. It shall be responsible for the implementation of money laundering management policy, process and measures, and the money laundry risk in operation. The Internal Control and Compliance Department shall oversee the management of money laundry risk at the head office level and is mainly responsible for (i) appointment of a responsible officer to take daily charge of the management of money laundry risk; (ii) preparation and implementation of the basic strategy, policy, system, procedure and measure of money laundry risk management; (iii) determination of the standards, inspection, analysis of money laundry risk and evaluation of the results of our money laundry risk management; (iv) development and promotion of tools and methods for management of money laundry risk and coordination of inspection and management of the risk of our customers; and (v) report to the responsible senior management on money laundry risk incidents and the management of money laundry risk.

We have established a set of risk measurement indices covering four major factors, including their nature, location, business (including financial product and services) and industry (including profession) in accordance with the applicable laws and regulations. A comprehensive risk measurement matrix has been derived to represent sub-risk factors under the four major factors according to the characteristics of the industry, type of business, size of operation and scope of customers. Through qualitative and quantitative analysis, the risks are measured and assessed with various weights to reflect the risks of customers in different classifications so that resources can be properly allocated to each customer in accordance with his risk assessment.

The measurement of customer risk shall be determined by going through the whole process of information collection, information selection and analysis, preliminary assessment, re-assessment and conclusion, to finalize the risk classification for the customers.

## REPUTATION RISK MANAGEMENT

Reputation risk refers to the risk of negative comments from relevant interested parties regarding our Bank arising from our operation, management and activities and other external events. Our Bank seeks to effectively monitor, identify and control our Bank's reputation risk.

The Board of Directors bears the ultimate responsibility for reputation risk management. It is mainly responsible for clarifying the responsibilities, authorities and reporting mechanism of senior management on reputation risk management, coordinating and formulating the management strategy and policy of reputation risk and to continuously and effectively monitor, control and report reputation risk, and timely respond to reputation events.

The senior management is responsible for leading the reputation risk management of the whole bank, mainly performing the following duties: (i) implement the reputation risk management strategy and policy formulated by the Board of Directors and ensure the effective operation of the relevant system of reputation risk management; (ii) guide the functional management departments of reputation risk to implement our Bank-wide reputation risk management and clarify their responsibilities, authorities and reporting mechanism related to reputation risk management, and allocate reputation risk management resources appropriate to the nature, scale and complexity of our Bank's business; and (iii) clarify the responsibilities of each department of the Bank in reputation risk management and ensure their implementation of reputation risk management system and measures.

The General Office of our Bank is the leading department of reputation risk management, which mainly performs the following duties: (i) formulating our Bank's reputation risk management system and assisting the senior management to determine the responsibilities of each department in reputation risk management; (ii) taking the lead in coordinating and handling our Bank-wide reputation risk events, accepting the reputation events submitted by other departments of the head office and first-level branches, assisting the monitoring and handling of reputation risk events of affiliated entities of the Group and reporting them to its management or the Board of Directors according to the severity of reputation events; (iii) taking the lead in the identification, assessment, control, monitoring, reporting and evaluation of reputation risk to ensure that each step of reputation risk management is carried out in an orderly manner; (iv) releasing relevant information regarding significant reputation risk events to the public in accordance with the principles of timeliness, appropriateness, openness, transparency, orderliness, and effectiveness; (v) establishing reputation risk monitoring mechanism, paying real-time attention to public information, carrying out scenario analysis on all kinds of reputation risk events that may occur, formulating plans, and clarifying false information and incomplete information in time; (vi) responsible for our reputation risk management assessment, inspection and evaluation; (vii) responsible for the statistical analysis of reputation risk of our Bank, record and storing the data and information related to reputation risk management, timely evaluating the effectiveness of response measures to reputation risk events, and promptly adjusting the response plan; (viii) cultivating the reputation risk management culture among our Bank's employees and our Bank, and organizing reputation risk related training to promote the awareness of staff and improving reputation risk prevention and control; (ix) making clear the requirements of news and public opinion release, timely and accurately releasing information to the public, actively accepting the supervision of public opinion, and providing convenience and necessary guarantee for normal news interview activities in accordance with relevant requirements; and (x) determining the person and unit specially assigned for information release and contact telephone number to facilitate inquiries from journalists and the public.

Specifically, our Bank has employed three methods: (i) a proactive method which focuses on the early prevention of reputation risk; (ii) standardization of the process of dealing with adverse public events; and (iii) public opinion analysis, and use the professional monitoring analysis report to train and improve the skills and capability of our Bank's reputation risk management team.

**INFORMATION TECHNOLOGY RISK MANAGEMENT**

Information technology risk refers to the risks caused by natural factors, human factors, technological loopholes and flawed management in the course of our Bank's use of information technology. The goal of information technology risk management is to realize the identification, measurement, monitoring and control of our Bank's information technology risk through the establishment of an effective mechanism to ensure the safe, sustainable and steady operation of our Bank's information system, to promote business innovation, and to enhance our Bank's core competitiveness and sustainable development ability.

The scope of our Bank's information technology risk management strategy includes but not limited to (i) information classification and protection; (ii) information system development, testing and maintenance; (iii) information technology operation and maintenance; (iv) access control; (v) physical security; (vi) personnel safety; and (vii) business continuity plan and emergency response.

The Information Technology Department (信息科技部) is the main department in charge of the operation of our Bank's information technology risk management and is responsible for (i) the information security, information system development and maintenance, information technology operation and business system continuity infrastructure management of our Bank; (ii) coordinating the account transactions, system parameter changes and event management related the information system; and (iii) clearly defining the internal management responsibilities among various departments, and ensuring that the personnel of each position have corresponding professional knowledge and skills.

The Comprehensive Risk Management Department is the main department in charge of our Bank's information technology risk assessment and supervision. It is responsible for (i) coordinating the formulation of relevant information technology risk management strategies, especially in terms of information security, business continuity plan, and compliance risk, (ii) providing advice and relevant compliance information for business departments and the Information Technology Department; and (iii) providing continuous information technology risk assessment on existing information systems and new information projects, tracking the implementation of rectification opinions, and supervising and assisting the technology department in handling information security threats and non-compliance events.

Audit Department is responsible for formulating the information technology audit system and process, formulating and implementing the information technology audit plan, and auditing the information technology management and major events.

## OVERVIEW

Upon Listing, transactions that our Group have entered into with our connected persons will constitute connected transactions of our Bank under Chapter 14A of the Listing Rules. We expect that such transactions will continue following the Listing and constitute fully exempt continuing connected transactions of our Bank. In addition, we have entered into certain transactions with our connected persons prior to the Listing which subsist after the Listing and would have constituted connected transactions of our Bank should such transactions were entered into after the Listing.

## FULLY EXEMPT CONTINUING CONNECTED TRANSACTIONS

### Commercial Banking Services and Products

Our Group consists of commercial banks incorporated in the PRC which are regulated by PBoC and the CBIRC. We provide commercial banking services and products in our ordinary and usual course of business to customers, which include our connected persons, such as our Directors, Supervisors and their respective associates. Set forth below are details of the continuing connected transactions between our Group and our connected persons:

***Provision of loans and other credit facilities to connected persons***

We extend loans and credit facilities (including the credit limits offered under the credit cards issued by our Group) in the ordinary and usual course of our business to certain of our connected persons on normal commercial terms (or commercial terms that are better to us) with reference to the prevailing market interest rates. We expect that we will continue to provide loans and credit facilities to our connected persons from time to time after the Listing, which will constitute continuing connected transactions of our Bank under Chapter 14A of the Listing Rules.

As such loans and credit facilities provided or to be provided by us to our connected persons are in the ordinary and usual course of our business and on normal commercial terms (or commercial terms that are better to us), these transactions are fully exempted from the reporting, announcement, circular, independent Shareholders' approval and annual review requirements pursuant to Rule 14A.87(1) of the Listing Rules.

***Deposits by connected persons***

We take deposits from certain of our connected persons in the ordinary and usual course of our business on normal commercial terms (or commercial terms that are better to us) with reference to the prevailing market interest rates. We expect that our connected persons will continue to place deposits with us from time to time after the Listing, which will constitute continuing connected transactions of our Bank under Chapter 14A of the Listing Rules.

As such deposits placed or to be placed by our connected persons are on normal commercial terms (or commercial terms that are better to us) and not secured by our assets, these transactions are fully exempted from the reporting, announcement, circular, independent Shareholders' approval and annual review requirements pursuant to Rule 14A.90 of the Listing Rules.

***Other banking services and products***

We also provide various commercial banking services and products, such as settlement services and wealth management products, to certain of our connected persons at normal fee. We expect that we will continue to provide such banking services and products to our connected persons from time to time following the Listing, which will constitute continuing connected transactions of our Bank under Chapter 14A of the Listing Rules.

As the provision of banking services and products to our connected persons are on normal commercial terms (or commercial terms that are better to us) and the highest applicable percentage ratio of such transactions, aggregate on an annual basis, are expected to be less than 0.1%, these transactions are fully exempted from the reporting, announcement, circular, independent Shareholders' approval and annual review requirements pursuant to Rule 14A.76(1) of the Listing Rules.

**SUBSISTING TRANSACTIONS ENTERED INTO BEFORE THE LISTING WHICH WOULD OTHERWISE CONSTITUTE CONNECTED TRANSACTIONS**

**A. Acquisition of our made-to-order Data Center and Research and Development Center**

On December 6, 2019, our Bank entered into a property made-to-order agreement (the "**Made-to-order Agreement**") with Guangdong Hongyuan Group Industry Development Co., Ltd.* (廣東宏遠集團產業發展有限公司) ("**Hongyuan Industry**") for the acquisition of first to sixteenth floors of R&D Building No.3 in Hongyuan International Artificial Intelligence (AI) Industry Center Phase I located on the south side of Kechuang Road in Nancheng District, Dongguan (the "**Property**") constructed in accordance with the customization requests of our Bank.

***Listing Rules Implication***

As at the Latest Practicable Date, Hongyuan Industry is indirectly owned as to 50% by Guangdong Hongyuan Group Co., Ltd.* (廣東宏遠集團有限公司), which in turn is owned as to 30% by Mr. Chen Haitao, our non-executive Director and holder of approximately 0.00610% of our Domestic Shares, and 39% in aggregate by two brothers of Mr. Chen Haitao.

Accordingly, Hongyuan Industry is a connected person of our Bank and, if the Made-to-order Agreement was entered into after the Listing, the entering into of the Made-to-order Agreement and the transactions contemplated thereunder would have constituted connected transaction of our Bank under Chapter 14A of the Listing Rules and, as the highest applicable percentage ratio of the Made-to-order Agreement is more than 0.1% but less than 5%, the Made-to-order Agreement would be subject to the annual reporting and announcement requirements under Chapter 14A of the Listing Rules but exempt from the circular and independent Shareholders' approval requirements pursuant to Rule 14A.76(2) of the Listing Rules.

*Principal Terms*

The principal terms of the Made-to-order Agreement are as follows:

**Date of agreement** • December 6, 2019

**Parties** • Hongyuan Industry

• Our Bank

**Subject matter** • Hongyuan Industry shall construct the Property based on the construction plan prepared by Hongyuan Industry pursuant to the customization requests of our Bank and shall deliver the Property to our Bank upon completion of the construction.

**Consideration** • Approximately RMB478.8 million

**Payment schedule** • The consideration shall be paid in accordance with the following schedule:

| | Amount payable | Percentage of total consideration[1] | Aggregate percentage of total consideration[1] |
|---|---|---|---|
| | *RMB' 000* | *%* | *%* |
| within 15 business days upon signing of the Made-to-order Agreement | 143,640 | 30.0 | 30.0 |
| within 15 business days upon obtaining the construction permit | 23,940 | 5.0 | 35.0 |
| within 15 business days after the date the construction reaches the ground level | 23,940 | 5.0 | 40.0 |
| within 15 business days after the date of completion of the construction of the third floor | 19,152 | 4.0 | 44.0 |
| within 15 business days after the date of completion of the construction of the sixth floor | 19,152 | 4.0 | 48.0 |
| within 15 business days after the date of completion of the construction of the ninth floor | 19,152 | 4.0 | 52.0 |
| within 15 business days after the date of completion of the construction of the 12th floor | 19,152 | 4.0 | 56.0 |
| within 15 business days after the date of completion of the construction of the 15th floor | 19,152 | 4.0 | 60.0 |
| within 15 business days after the date of topping-out | 119,700 | 25.0 | 85.0 |
| within 15 business days upon completion of the completion acceptance procedures | 47,880 | 10.0 | 95.0 |
| within 15 business days upon obtaining the property title certificate | 23,940 | 5.0 | 100.0 |
| **Total** | **478,800** | **100.0** | |

If our Bank fails to pay the consideration due in full within the prescribed payment due date, our Bank shall pay a compensation of 0.05% of the overdue amount per day during the overdue period

**Floor area of the Property (based on floor area capable to be registered in the property title certificate of the Property)**

- 33,946.37 sq. m (subject to the actual floor area indicated on the approval documents issued by the relevant authorities)

**Number of floors of the Property**

- 16-story

**Delivery of the Property**

- Hongyuan Industry shall complete the completion acceptance filing procedures and deliver the Property within 35 months from the date (i) our Bank confirming the design of the Property in writing; and (ii) Hongyuan Industry obtaining the construction planning permit (建設工程規劃許可證) from the relevant authorities (the "**Delivery Deadline**").

**Consideration adjustment**

- Should there be any difference between the floor area capable to be registered in the property title certificate of the Property and that stated in the Made-to-order Agreement (i.e. 33,946.37 sq.m), the consideration shall be adjusted as follows:

  (i) if the difference is less than or equal to 0.6%, there shall be no adjustment to the consideration;

  (ii) if the difference is more than 0.6% and less than or equal to 3.0%, the consideration shall be increased by RMB11,700 per extra sq.m or decreased by RMB11,700 per sq.m shortfall (as the case may be);

  (iii) if the floor area capable to be registered in the property title certificate of the Property is larger than that stated in the Made-to-order Agreement by more than 3.0%, the consideration shall be increased by RMB11,700 per extra sq.m only for the initial 3.0%; and

  (iv) if the floor area capable to be registered indicated in the property title certificate of the Property is smaller than that stated in the Made-to-order Agreement by more than 3.0%, the consideration shall be decreased by RMB11,700 per sq. m for the initial 3.0% shortfall and RMB14,040 per sq. m for the remaining shortfall.

**Termination and compensation**

- If Hongyuan Industry fails to deliver the Property within the Delivery Deadline, Hongyuan Industry shall, at the option of our Bank:

  (i) refund the consideration paid together with 20% of the total consideration as compensation; or

  (ii) continue to perform the Made-to-order Agreement and pay 0.05% of the total consideration per day from the date following the Delivery Deadline to the actual date of delivery of the Property (subject to a maximum cap of 20% of the total consideration) as compensation.

- If Hongyuan Industry sells the Property to a third party without the consent of our Bank, Hongyuan Industry shall return the consideration paid together with 20% of the total consideration as compensation unless our Bank has been in breach of the laws and regulations or the Made-to-order Agreement.

- If, for a period of more than 30 days, Hongyuan Industry fails to register the title of the Property for our Bank upon the completion of the inspection and filing procedures and within one year after the signing of the property sale and purchase agreement due to Hongyuan Industry being unable to cause the sub-division of the title of the Property from the remaining site, provided that our Bank has been in compliance with the Tax Payment Obligation (as defined below), Hongyuan Industry shall, at the option of our Bank:

  (i) refund the consideration paid together with 20% of the total consideration and other damages incurred by our Bank as compensation; or

  (ii) continue to perform the Made-to-order Agreement and arrange for the transfer of the title of the Property to our Bank within five years and pay 0.05% of the total consideration per day from such date to the actual date of delivery of title of the Property (subject to a maximum accumulation period of five years) as compensation. Our Bank has the right to terminate the Made-to-order Agreement if the transfer of title is not registered upon the end of the five-year period.

- If our Bank (i) fails to pay the consideration due in full within two months of the prescribed payment due date; (ii) terminates the Made-to-order Agreement unilaterally without cause; (iii) requests to return the Property; or (iv) refuses to cooperate in the registration of the transfer of title of the Property, Hongyuan Industry may terminate the Made-to-order Agreement and our Bank shall pay 20% of the total consideration as compensation and Hongyuan Industry shall refund the remaining consideration paid by our Bank after deducting the aforementioned compensation.

- Save for circumstances expressly provided in the Made-to-order Agreement, if any party breaches the Made-to-order Agreement, the other party may require the breaching party to pay a compensation of 20% of the total consideration or the actual loss amount, whichever is the higher.

**Taxes**

- Our Bank shall be responsible for (i) the property tax of the Property after delivery of the Property; and (ii) the taxes and fees arising out of the application of the property title certificate and transfer of the title of the Property.

- Hongyuan Industry shall be responsible for the property tax of the Property before delivery of the Property.

| | | |
|---|---|---|
| **Other principal terms** | • | Our Bank shall pay tax of not less than RMB50 million per year in the Nancheng District in Dongguan, Guangdong Province after delivery of the Property (the "**Tax Payment Obligation**"). |
| | • | Upon delivery of the Property, our Bank shall have the priority to rent 136 car parking spaces in the underground carpark. |

1. For reference only and does not form part of the terms of the Made-to-order Agreement.

***Reasons for and Benefit of Entering into of the Made-to-order Agreement***

The current data center of our Bank was put into service in 2012 where spaces in our current data center have almost been used up and our Bank has been renting server rack spaces from third party as interim solution. To support the long term business development of our Bank, taking into consideration of our information technology strategic planning, our Bank decided to set up a new data center and research and development center.

Taking into consideration of (i) Hongyuan International Artificial Intelligence (AI) Industry Center Phase I being suitable for establishing data center based on our Bank's evaluation with reference to an analysis report prepared by third party consultancy company; (ii) the availability of comprehensive supporting facilities around the Property; (iii) the artificial intelligence positioning of Hongyuan International Artificial Intelligence Industry Center Phase I being in line with the development direction of the information technology strategic planning of our Bank as artificial intelligence is one of the major technologies in fintech application; (iv) the fact that the Property locates in proximity with our headquarters building, facilitating collaboration and discussion between our information technology department and the operation departments in our headquarters building on project needs and system testing; and (v) the valuation report on the Property prepared by an independent third party property valuation company, our Bank entered into the Made-to-order Agreement with Hongyuan Industry, the developer of Hongyuan International Artificial Intelligence Industry Center Phase I, to build the Property in accordance with the customization requests of our Bank for setting up our new data center and research and development center.

The Board of Directors is of the opinion that (i) the transaction under the Made-to-order Agreement is in the ordinary and usual course of business of our Bank and in the interests of our Bank and our Shareholders as a whole and (ii) the terms of the Made-to-order Agreement are on normal commercial terms and are fair and reasonable.

***Basis of Determination of the Consideration***

The consideration under the Made-to-order Agreement was determined after commercial negotiations between the parties based on the initial quotation provided by Hongyuan Industry, with reference to the valuation report on the Property prepared by an independent third party property valuation company.

**B. Property Leasing**

As at the Latest Practicable Date, our Bank has leased certain properties from our connected persons under various tenancy agreements for setting up our sub-branches, ATMs and intelligent video banks (the "**Subsisting Leases**") with their monthly rent determined with reference to the then prevailing market rent.

As the Subsisting Leases have been recognized as an asset representing our right to use the leased property and a liability to make rental payments during the lease term in accordance with the applicable accounting standard, the Subsisting Leases constitute one-off transactions of our Bank within the meaning of the Listing Rules. If the Subsisting Leases were entered into after the Listing, these transactions would be fully exempt from the reporting, announcement, circular and independent Shareholders' approval requirements pursuant to Rule 14A.76(1) of the Listing Rules as the Subsisting Leases are on normal commercial terms (or commercial terms that are better to us) and the highest applicable percentage ratio of such transactions are less than 0.1%.

If our Group enters into any tenancy agreement with our connected persons after the Listing, we will comply with the applicable requirements under the Listing Rules where necessary.

## DIRECTORS

The Board of Directors comprises 17 Directors, including 4 executive Directors, 7 non-executive Directors and 6 independent non-executive Directors. In accordance with our Articles of Association, the Directors shall have a term of three years and are eligible for re-election upon expiration of his/her term of office. An independent non-executive Director shall not serve continuous terms for more than six years. The appointment of our Directors is subject to the approval of the CBIRC and, as of the Latest Practicable Date, the approvals from the CBIRC in respect of the appointment of all of our existing Directors have been obtained.

The following table sets forth certain particulars of our Directors.

| Name | Age | Date of joining our Bank | Date of appointment as a Director | Position | Responsibilities |
|---|---|---|---|---|---|
| Mr. Wang Yaoqiu (王耀球先生) | 53 | April 2016 | August 12, 2016 | Secretary to the party committee, chairman and executive Director | Direct the operation and business strategies of our Bank in general; responsible for the work of the party committee, the Board of Directors and audit function; and being the chairman of the Strategic Decision and Sannong Committee of the Board of Directors |
| Mr. Fu Qiang (傅強先生) | 51 | November 2018 | December 28, 2018 | Deputy secretary to the party committee, executive Director and president | Responsible for the comprehensive operation management of our Bank, in charge of assets and liabilities management department, internal control and compliance department, corporate culture department and rural revitalization financial services center and being the chairman of the Consumer Rights Protection Committee and a member of the Strategic Decision and Sannong Committee of the Board of Directors |

| Name | Age | Date of joining our Bank | Date of appointment as a Director | Position | Responsibilities |
|---|---|---|---|---|---|
| Mr. Ye Jianguang (葉建光先生) | 48 | July 1994[1] | December 28, 2018 | Member of the party committee, executive Director, vice president, chief risk officer, secretary to the Board of Directors and joint company secretary | In charge of the human resources department, credit approval department, comprehensive risk management and compliance department and the general office; being the chairman of the Comprehensive Risk Management Committee and a member of the Related Party Transaction Control Committee of the Board of Directors |
| Mr. Chen Wei (陳偉先生) | 49 | July 1996[2] | October 25, 2019 | Member of the party committee, executive Director and vice president | In charge of the business department, financial market department, strategic customer department, investment banking and wealth management department, small and micro finance department, international banking department, finance department and security and protection department |
| Mr. Lai Chun Tung (黎俊東先生) | 46 | November 2005[3] | December 5, 2009[3] | Non-executive Director | Participation in major decision making in respect of the strategic development and business management of our Bank; being a member of the Strategic Decision and Sannong Committee of the Board of Directors |

| Name | Age | Date of joining our Bank | Date of appointment as a Director | Position | Responsibilities |
|---|---|---|---|---|---|
| Mr. Wang Junyang (王君揚先生) | 38 | August 2016 | August 12, 2016 | Non-executive Director | Participation in major decision making in respect of the strategic development and business management of our Bank; being a member of the Strategic Decision and Sannong Committee and the Comprehensive Risk Management Committee of the Board of Directors |
| Mr. Cai Guowei (蔡國偉先生) | 59 | November 2005[3] | December 5, 2009[3] | Non-executive Director | Participation in major decision making in respect of the strategic development and business management of our Bank; being a member of the Consumer Rights Protection Committee of the Board of Directors |
| Mr. Ye Jinquan (葉錦泉先生) | 51 | March 2017 | March 27, 2017 | Non-executive Director | Participation in major decision making in respect of the strategic development and business management of our Bank; being a member of the Nomination and Remuneration Committee of the Board of Directors |

| Name | Age | Date of joining our Bank | Date of appointment as a Director | Position | Responsibilities |
|---|---|---|---|---|---|
| Mr. Chen Haitao (陳海濤先生) | 54 | February 2012 | February 23, 2012 | Non-executive Director | Participation in major decision making in respect of the strategic development and business management of our Bank; being member of the Strategic Decision and Sannong Committee and the Consumer Rights Protection Committee of the Board of Directors |
| Mr. Zhang Qingxiang (張慶祥先生) | 35 | October 2019 | October 25, 2019 | Non-executive Director | Participation in major decision making in respect of the strategic development and business management of our Bank; being a member of the Comprehensive Risk Management Committee of the Board of Directors |
| Mr. Chen Weiliang (陳偉良先生) | 36 | October 2019 | October 25, 2019 | Non-executive Director | Participation in major decision making in respect of the strategic development and business management of our Bank; being a member of the Audit Committee of the Board of Directors |
| Mr. Yip Tai Him (葉棣謙先生) | 51 | March 2017 | March 27, 2017 | Independent non-executive Director | Overseeing the operations and management of our Bank and providing independent advice; being the chairman of the Nomination and Remuneration Committee of the Board of Directors |

| Name | Age | Date of joining our Bank | Date of appointment as a Director | Position | Responsibilities |
|---|---|---|---|---|---|
| Mr. Xu Zhi (許智先生) | 49 | October 2019 | October 25, 2019 | Independent non-executive Director | Overseeing the operations and management of our Bank and providing independent advice; being the chairman of the Audit Committee and a member of the Comprehensive Risk Management Committee of the Board of Directors |
| Mr. Shi Wenfeng (施文峰先生) | 43 | October 2019 | October 25, 2019 | Independent non-executive Director | Overseeing the operations and management of our Bank and providing independent advice; being the chairman of the Related Party Transaction Control Committee and a member of the Nomination and Remuneration Committee of the Board of Directors |
| Mr. Tan Fulong (譚福龍先生) | 48 | October 2019 | October 25, 2019 | Independent non-executive Director | Overseeing the operations and management of our Bank and providing independent advice; being a member of the Related Party Transaction Control Committee and the Nomination and Remuneration Committee of the Board of Directors |
| Ms. Liu Yuou (劉宇鷗女士) | 50 | October 2019 | October 25, 2019 | Independent non-executive Director | Overseeing the operations and management of our Bank and providing independent advice; being a member of the Related Party Transaction Control Committee and the Audit Committee of the Board of Directors |

| Name | Age | Date of joining our Bank | Date of appointment as a Director | Position | Responsibilities |
|---|---|---|---|---|---|
| Ms. Xu Tingting (許婷婷女士) | 38 | October 2019 | October 25, 2019 | Independent non-executive Director | Overseeing the operations and management of our Bank and providing independent advice; being a member of the Audit Committee and the Consumer Rights Protection Committee of the Board of Directors |

*Notes:*

1. *Joined Dongguan Rural Credit Cooperatives Association* (東莞農村信用合作社聯合社), which merged with 32 rural credit cooperatives at town (district) level in Dongguan in November 2005 and became Dongguan Rural Credit Cooperatives Union (東莞市農村信用合作聯社), the predecessor of our Bank, in July 1994; left in December 2014 and rejoined our Bank in August 2016.*

2. *Joined Dongguan Rural Credit Cooperatives Association* (東莞農村信用合作社聯合社), which merged with 32 rural credit cooperatives unions at town (district) level in Dongguan in November 2005 and became Dongguan Rural Credit Cooperatives Union (東莞市農村信用合作聯社), the predecessor of our Bank, in July 1996; left in March 2016 and rejoined our Bank in August 2016.*

3. *Served as a member of the Council of Dongguan Rural Credit Cooperatives Union (東莞市農村信用合作聯社), the predecessor of our Bank, in November 2005; appointed as a Director at the inauguration meeting and the first shareholders' general meeting before the establishment of our Bank, in December 2009.*

**Executive Directors**

**Mr. Wang Yaoqiu (王耀球先生)**, aged 53, is the secretary to the party committee, an executive Director and the chairman of our Board of Directors.

Mr. Wang has over 32 years of experience in the operation and management of banking businesses. Mr. Wang had held various positions with the Bank of China Limited from June 1989 to August 2003, including manager of retail department at branch, president of the Humen sub-branch and vice president of the Dongguan branch successively. Mr. Wang was the head of the preparatory group for the establishment of the Dongguan branch of China Merchants Bank Co., Ltd. ("**China Merchants Bank**") from August 2003 to May 2004, president and secretary to the party committee of the Dongguan branch of China Merchants Bank from May 2004 to December 2010 and June 2004 to December 2010, respectively, secretary to the party committee of the Guangzhou branch of China Merchants Bank from December 2010 to April 2011, secretary to the party committee and president of the Guangzhou branch of China Merchants Bank from April 2011 to October 2015, and secretary to the party committee and president (business director level) of the Guangzhou branch of China Merchants Bank from October 2015 to April 2016. Mr. Wang joined our Bank in April 2016 and has subsequently been appointed as the secretary to the party committee, our executive Director and the chairman of our Board of Directors. In addition, Mr. Wang has been serving as a council member of the fourth and fifth sessions of the Council of Guangdong Province Rural Credit Cooperatives Association* (廣東省農村信用社聯合社) since December 2017.

Mr. Wang graduated from the Southwestern University of Finance and Economics (西南財經大學) in July 2007, majoring in finance (distance learning), and obtained a master's degree in engineering from the Huazhong University of Science and Technology (華中科技大學) in December 2008.

In addition, Mr. Wang was accredited as an intermediate financial economist in November 1999 by the Ministry of Personnel of the PRC and an intermediate political engineer in December 2000 by the Office of the Leading Group of Qualification Conference of Ideological and Political Works of Dongguan (東莞市政工職評辦).

**Mr. Fu Qiang (傅強先生)**, aged 51, is a deputy secretary to the party committee, an executive Director and president of our Bank.

Mr. Fu has over 30 years of relevant experiences in the banking industry. Mr. Fu had served in various positions with the Guangdong branch of the SAFE and the Guangdong provincial branch of PBoC from July 1991 to October 2018, including the deputy head and head of the party committee office of the Guangdong provincial branch of PBoC from February 1995 to October 1997, head of the audit and supervision department and a full-time secretary of the league committee of the Guangdong provincial branch of PBoC from October 1997 to January 1999, head of the banking regulatory office (1st division) of the Guangzhou branch of PBoC from January 1999 to April 1999, deputy director of the department of civic affairs of the league committee and the secretary to the league committee of the Guangzhou branch of PBoC from April 1999 to December 2001; and the deputy secretary of the league committee of the Guangzhou branch of PBoC from December 2001 to March 2004. Mr. Fu served as a director of the Guangzhou branch of China Foreign Exchange Trade System (中國外匯交易中心) from March 2004 to August 2005, a secretary to the party committee, president of the Zhaoqing central sub-branch of PBoC and the director of the Zhaoqing sub-branch of the SAFE from August 2005 to March 2009, a director of the payment and settlement department of the Guangzhou branch of PBoC from March 2009 to February 2011, and a deputy director of the operation and management department (director level) of the Guangzhou branch of PBoC from February 2011 to February 2017. During the period above, Mr. Fu also served as a member of the standing committee of the prefecture committee and the vice governor of Gannan Prefecture of Gansu Province from October 2014 to November 2016. Mr. Fu acted as the deputy inspector at the Guangzhou branch of PBoC (deputy bureau level) from February 2017 to October 2018. Mr. Fu joined our Bank in November 2018 and has subsequently been appointed as the deputy secretary to the party committee, an executive Director and our president.

Mr. Fu graduated from the Jiangxi University of Finance and Economics (江西財經大學) in July 2002, majoring in finance and obtained a bachelor's degree in economics (distance learning), and obtained a master's degree in business administration from the Sichuan University (四川大學) in June 2009. In addition, Mr. Fu was accredited as a senior economist by the Guangzhou branch of PBoC in September 2007.

**Mr. Ye Jianguang (葉建光先生)**, aged 48, is a member of the party committee, an executive Director, a vice president, the chief risk officer, secretary to the Board of Directors and joint company secretary of our Bank.

Mr. Ye has over 27 years of experience in the operation and management of banking businesses. From July 1994 to October 2006, Mr. Ye had held various positions at Dongguan Rural Credit Cooperatives Association* (東莞農村信用合作社聯合社), the predecessor of our Bank, including the deputy supervisor of the fund planning and loan department, assistant manager of the customers relationship department (in charge of general operation), manager of the marketing department and manager of the international banking department.

From October 2006 to March 2010, Mr. Ye served as the manager of the corporate business department of Dongguan Rural Credit Cooperatives Union (東莞市農村信用合作聯社), the predecessor of our Bank. He successively served as the general manager of the corporate business department, assistant president of the head office and president of Houjie sub-branch of our Bank from March 2010 to December 2014, the general manager of the fund management department of Guangdong Province Rural Credit Cooperatives Association* (廣東省農村信用社聯合社) from December 2014 to August 2016. Mr. Ye rejoined our Bank in August 2016 and has subsequently been appointed as a member of the party committee, the vice president, an executive Director, the chief risk officer, secretary to the Board of Directors and joint company secretary of our Bank.

Mr. Ye obtained a master's degree in accounting from the Hunan University (湖南大學) in December 2002, majoring in professional management and a doctoral degree in economics from the Jinan University (暨南大學) in June 2014, majoring in finance. In addition, Mr. Ye was accredited as a senior economist by the Human Resources and Social Security Department of Guangdong Province in March 2016.

**Mr. Chen Wei (陳偉先生)**, aged 49, is a member of the party committee, an executive Director and a vice president of our Bank.

Mr. Chen has over 25 years of experience in the operation and management of banking businesses. He held various positions at Dongguan Rural Credit Cooperatives Association* (東莞農村信用合作社聯合社) and Dongguan Rural Credit Cooperatives Union (東莞市農村信用合作聯社), the predecessor of our Bank, from July 1996 to January 2010, including deputy chief of Zhongtang Credit Union* (中堂信用社), the deputy chief of Xiegang Credit Union* (謝崗信用社) (in charge of general operation) and subsequently between January 2010 and March 2016 served as the vice president (in charge of general operation) and president of the Xiegang sub-branch and the president of the central sub-branch of our Bank and has been assigned as the deputy secretary to the party committee and a director of Xuwen County Rural Credit Cooperative Union* (徐聞縣農村信用合作聯社) between March 2015 and March 2016. Mr. Chen served as the deputy general manager of the innovative development department of Guangdong Province Rural Credit Cooperatives Association* (廣東省農村信用社聯合社) from March 2016 to August 2016. Mr. Chen rejoined our Bank in August 2016 and has subsequently been appointed as a member of the party committee, the vice president and an executive Director of our Bank.

Mr. Chen graduated from the school of law of Sun Yat-sen University (中山大學) in June 1996, majoring in economic law.

**Non-executive Directors**

**Mr. Lai Chun Tung (黎俊東先生)**, aged 46, was appointed as a non-executive Director on December 5, 2009. He was a member of the Council of Dongguan Rural Credit Cooperatives Union (東莞市農村信用合作聯社), the predecessor of our Bank, from November 2005 to December 2009.

Mr. Lai has served as an executive director and manager of Dongguan San Yang Industrial Development Co., Ltd.* (東莞市三陽實業發展有限公司) since September 1997. He has served as the legal representative, chairman and general manager of Dongguan Eco-Tech Environmental Power Company Limited* (東莞市科偉環保電力有限公司) since August 2007. Furthermore, Mr. Lai has also served as a director of Canvest Kewei Environmental Investment (Guangdong) Company Limited* (粵豐科維環保投資（廣東）有限公司) (formerly known as Dongguan Kewei Environmental Power Company Limited* (東莞市科維環保電力有限公司)) and

Zhanjiang Canvest Environmental Power Company Limited* (湛江市粵豐環保電力有限公司) since February 2009 and April 2013, respectively. Mr. Lai has been appointed as an executive director of Canvest Environmental Protection Group Company Limited (粵豐環保電力有限公司) (1381.HK) since September 2014 and is responsible for the overall strategy and major decision of its business operation. Dongguan Eco-Tech Environmental Power Company Limited, Dongguan Kewei Environmental Power Company Limited and Zhanjiang Canvest Environmental Power Company Limited are subsidiaries of Canvest Environmental Protection Group Company Limited. Mr. Lai is also a controlling shareholder of Canvest Environmental Protection Group Company Limited. Mr. Lai has served as the legal representative, executive director and manager of Canvest Yuezhan Environmental Investment (Guangdong) Company Limited* (粵豐粵展環保投資(廣東)有限公司) since February 2017, has served as a director of the first session of the board of directors of Dongguan Investment Group Co., Ltd.* (東莞民營投資集團有限公司) between August 2017 and January 2021 and has served as the legal representative, chairman and general manager of Canvest Keying Intelligence Investment (Guangdong) Co., Ltd* (粵豐科盈智能投資（廣東）有限公司) since September 2020.

Mr. Lai obtained a higher diploma in public administration and management from the City University of Hong Kong in November 1997. He obtained an executive master's degree in business administration from the South China University of Technology (華南理工大學) in December 2007 and a doctoral degree in business administration from IPAG Business School in July 2018. Mr. Lai was a member of the 10th, 11th and 12th Chinese People's Political Consultative Conference of Guangdong Province (中國人民政治協商會議廣東省委員會), a member of the 11th Dongguan Communist Committee of Guangdong Province (廣東省東莞市委員會) and a member of the 12th and 13th standing committee of the Dongguan Committee of Chinese People's Political Consultative of Guangdong Province (中國人民政治協商會議廣東省東莞市委員會) (resigned from such standing committee position in January 2019).

In addition, Mr. Lai was awarded the title of Outstanding Entrepreneur of Environmental Protection Industry in Guangdong Province of "12th Five-Year-Plan" (「十二五」廣東省環境保護產業優秀企業家) by the China Association of Environmental Protection Industry of Guangdong Province (廣東省環境保護產業協會) in July 2016, the Pioneer of Recycling Economy of 2018 (2018年度循環經濟行業領軍人物) by the Guangdong Federation of Recycling Economy and Resources Conservation Industry (廣東省循環經濟和資源綜合利用協會) in January 2019 and 2019 Outstanding Energy Conservation Entrepreneur (2019年度節能優秀企業家) by Guangdong Energy Conservation Association (廣東省節能協會) in May 2020.

Mr. Lai holds 20% of the equity interest of Dongguan City Zhuorui Small Loans Co., Ltd. (東莞市卓瑞小額貸款股份有限公司)("**Dongguan Zhuorui**"), a company principally engaged in small loans business with registered capital of RMB100.0 million. As Dongguan Zhuorui is engaged in small loans business, it may compete with the business of our Bank. Taking into consideration of the registered capital of RMB100.0 million of Dongguan Zhuorui as compared to that of approximately RMB5,740.5 million of our Bank and the diverse scope of business of our Bank, the potential competition between our Bank with Dongguan Zhuorui is minimal. As Mr. Lai is our non-executive Director and does not participate in our daily management, we believe that the business operation of our Bank will not be affected by Mr. Lai's interest in Dongguan Zhuorui. In accordance with our Articles of Association, if a Director is materially interested in any matters to be considered at the Board of Directors meeting, such Director shall abstain from voting on such resolution.

**Mr. Wang Junyang (王君揚先生)**, aged 38, was appointed as a non-executive Director on August 12, 2016.

Mr. Wang joined Dongguan Kanghua Hospital Co., Ltd. (東莞康華醫院有限公司) in August 2007 and has held various positions since then, including an assistant to the general manager responsible for hospital operations from August 2007 to July 2009, manager of the business department responsible for business development from August 2009 to November 2012, and a vice general manager of the business department responsible for business management and overall strategic development of the hospital since December 2012. From August 2007 and December 2008, Mr. Wang served as a director and the general manager of Dongguan Kanghua Group Co., Ltd. (東莞市康華投資集團有限公司) and Dongguan Xingye Group Co., Ltd. (東莞市興業集團有限公司), responsible for business management and overall strategic development, respectively. In addition, Mr. Wang has been appointed as an executive director and the chairman of Guangdong Kanghua Healthcare Co., Ltd.* (廣東康華醫療股份有限公司) (3689.HK), the holding company of Dongguan Kanghua Hospital Co., Ltd., in December 2015.

Mr. Wang obtained a bachelor's degree in business administration, majoring in logistics management, from Paramount University of Singapore in January 2006.

Mr. Wang holds 97.46% of the equity interest of Dongguan City Kanghua Investment Group Co., Ltd.* (東莞市康華投資集團有限公司) ("**Kanghua Investment**"), which in turn holds 80% of the equity interest of Dongguan City Xingye Refinancing Guarantee Co., Ltd.* (東莞市興業融資擔保有限公司) ("**Dongguan Xingye**"), a company principally engaged in the provision of guarantee and related business with registered capital of RMB250.0 million. In addition, Kanghua Investment is interested in 50% of the equity interest of Dongguan City Kanglian Property Development Co., Ltd.* (東莞市康聯房地產開發有限公司), which in turn holds 80% of the equity interest of Dongguan City Baihui Pawn Co., Ltd.* (東莞市百匯典當有限公司)("**Dongguan Baihui**"), a company principally engaged in pawn business with registered capital of RMB5.0 million. Mr. Wang also holds 50% of the equity interest of Dongguan City Xingye Group Co., Ltd.* (東莞市興業集團有限公司) which in turn holds 20% of the equity interest in Dongguan City Dongshang Small Loans Co., Ltd.* (東莞市東商小額貸款有限公司 )("**Dongguan Dongshang**"), a company principally engaged in small loans business with registered capital of RMB200.0 million. As Dongguan Xingye, Dongguan Baihui and Dongguan Dongshang are engaged in the provision of guarantee business, pawn business and small loans business, respectively, they may compete with the business of our Bank.

Taking into consideration of the registered capital of RMB250.0 million of Dongguan Xingye, RMB5.0 million of Dongguan Baihui and RMB200.0 million of Dongguan Dongshang as compared to that of approximately RMB5,740.5 million of our Bank and the diverse scope of business of our Bank, the potential competition between our Bank with each of Dongguan Xingye, Dongguan Baihui and Dongguan Dongshang is minimal. As Mr. Wang is our non-executive Director and does not participate in our daily management, we believe that the business operation of our Bank will not be affected by Mr. Wang's interest in Dongguan Xingye, Dongguan Baihui and Dongguan Dongshang. In accordance with our Articles of Association, if a Director is materially interested in any matters to be considered at the Board of Directors meeting, such Director shall abstain from voting on such resolution.

**Mr. Cai Guowei (蔡國偉先生)**, aged 59, was appointed as a non-executive Director on December 5, 2009. He was a member of the Council of Dongguan Rural Credit Cooperatives Union (東莞市農村信用合作聯社), the predecessor of our Bank, from November 2005 to December 2009.

Mr. Cai was the chairman of Dongguan City Zhangmutou Railway Cargo and Storage Service Station* (東莞市樟木頭鐵路貨物儲運服務站) from January 1985 to March 2003 and the managing director of Dongguan

Nanfang Foodgrain & Cooking Oil Co., Ltd.* (東莞市南方糧油有限公司) from January 2004 to December 2009. In addition, Mr. Cai has been the chairman of China Harbour Investment Limited* (中國港投資有限公司) since February 1994 and vice chairman of Dongguan Shenzhen Energy Zhangyang Electric Power Co., Ltd.* (東莞深能源樟洋電力有限公司) since August 2003.

Mr. Cai graduated from the Southwestern University of Finance and Economics (西南財經大學) in January 2012, majoring in finance (distance learning).

**Mr. Ye Jinquan (葉錦泉先生)**, aged 51, was appointed as a non-executive Director on March 27, 2017.

Mr. Ye was a salesman of Dongguan Electrochemical and Industrial Co., Ltd.* (東莞電化實業有限公司) from July 1987 to October 1993 and was the general manager of Dongguan Wanjiang Mingxing Decoration Co., Ltd.* (東莞市萬江明興裝飾有限公司) from October 1993 to April 2002. He was the chairman of Dongguan Commercial Center Development Co., Ltd.* (東莞市商業中心發展有限公司) from August 2002 to January 2013. Since January 2013, Mr. Ye has been the legal representative of Guangdong Haide Group Limited* (廣東海德集團有限公司).

Mr. Ye completed a master of business administration program from the South China University of Technology (華南理工大學) in November 2013.

**Mr. Chen Haitao (陳海濤先生)**, aged 54, was appointed as a non-executive Director on February 23, 2012.

From April 1988 to March 1998, Mr. Chen was the general manager of Dongguan Zhenxiang Industry and Trade Development Co., Ltd.* (東莞市振興工貿發展有限公司) and was responsible for the operation management of the company. Since March 1998, Mr. Chen has served as a director and later as managing director, and has been the chairman of Guangdong Hongyuan Group Co., Ltd.* (廣東宏遠集團有限公司) since February 2018. Mr. Chen has also been a director of Dongguan Minying Group Co., Ltd.* (東莞市民盈集團股份有限公司) and CBA League (Beijing) Sports Co., Ltd.* (中籃聯（北京）體育有限公司) since January 2016 and October 2016, respectively.

In July 2001, Mr. Chen graduated from the Guangdong Institute of Public Administration (廣東行政學院), majoring in economic administration. In July 2014, he graduated from China University of Geosciences (Wuhan) (中國地質大學(武漢)) (distance learning), majoring in business administration. Mr. Chen obtained a first prize certificate of honor from the People's Government of Guangdong Province in November 2009.

Mr. Chen holds 30% of the equity interest of Guangdong Hongyuan Group Co., Ltd.* (廣東宏遠集團有限公司) which in turn is interested in 20% of the equity interest of Dongguan City Zhuorui Small Loans Co., Ltd.* (東莞市卓瑞小額貸款股份有限公司)("**Dongguan Zhuorui**"), a company principally engaged in small loans business with registered capital of RMB100.0 million. As Dongguan Zhuorui is engaged in small loans business, it may compete with the business of our Bank.

Taking into consideration of the registered capital of RMB100.0 million of Dongguan Zhuorui as compared to that of approximately RMB5,740.5 million of our Bank and the diverse scope of business of our Bank, the potential competition between our Bank with Dongguan Zhuorui is minimal. As Mr. Chen is our non-executive Director and does not participate in our daily management, we believe that the business operation of our Bank will not be affected by Mr. Chen's interest in Dongguan Zhuorui. In accordance with our Articles of Association, if a Director is materially interested in any matters to be considered at the Board of Directors meeting, such Director shall abstain from voting on such resolution.

**Mr. Zhang Qingxiang (張慶祥先生)**, aged 35, was appointed as a non-executive Director on October 25, 2019.

From July 2008 to July 2009, Mr. Zhang was an assistant to the chairman of Dongguan Yuxinguo Industrial Investment Co., Ltd.* (東莞市裕欣國實業投資有限公司). Since August 2009, Mr. Zhang became the chairman of Dongguan Yuxinguo Industrial Investment Co., Ltd.* (東莞市裕欣國實業投資有限公司) and the chairman and managing director of Guangdong Yuxinguo Construction Engineering Limited* (廣東裕欣國建築工程有限公司).

In June 2008, Mr. Zhang graduated from the Guangdong University of Technology (廣東工業大學) with a bachelor's degree in business administration. In addition, Mr. Zhang had been the vice chairman of the second session of the committee of Guangdong Federation of Young Entrepreneurs (廣東省青年企業家聯合會) and is currently a member of the 13th standing committee of the Dongguan Committee of the Chinese People's Political Consultative Conference of Guangdong Province (中國人民政治協商會議廣東省東莞市委員會), an executive committee of the 12th session of the committee of Guangdong Federation of Industry and Commerce (general chamber of commerce) (廣東省工商業聯合會(總商會)), a deputy chairman of Dongguan Federation of Industry and Commerce (general chamber of commerce) (東莞市工商業聯合會(總商會)), a standing director of the first session of the committee of the Dongguan Association of International Entrepreneurs (世界莞商聯合會), an honorary director of the Standing Committee of Young Entrepreneurs of Dongguan Association of International Entrepreneurs (東莞世界莞商聯合會青年工作委員會) and the chairman of the first session of the board of supervisors of Dongguan Young Entrepreneurs Federation (東莞市青年企業家聯合會).

Mr. Zhang and his spouse, in aggregate, hold 20.2% of the equity interest of Dongguan City Jiaxing Small Loan Co., Ltd.* (東莞市佳興小額貸款股份有限公司)("**Dongguan Jiaxing**"), a company principally engaged in small loans business with registered capital of RMB100.0 million. As Dongguan Jiaxing is engaged in small loans business, it may compete with the business of our Bank.

Taking into consideration of the registered capital of RMB100.0 million of Dongguan Jiaxing as compared to that of approximately RMB5,740.5 million of our Bank and the diverse scope of business of our Bank, the potential competition between our Bank with Dongguan Zhuorui is minimal. As Mr. Zhang is our non-executive Director and does not participate in our daily management, we believe that the business operation of our Bank will not be affected by Mr. Zhang's interest in Dongguan Jiaxing. In accordance with our Articles of Association, if a Director is materially interested in any matters to be considered at the Board of Directors meeting, such Director shall abstain from voting on such resolution.

**Mr. Chen Weiliang (陳偉良先生)**, aged 36, was appointed as a non-executive Director on October 25, 2019.

From December 2010 to June 2013, Mr. Chen worked at the business and trust management department of Dongguan Trust Co., Ltd.* (東莞信託有限公司). Mr. Chen has served as the general manager of Dongguan

Guanshang Industry and Investment Co., Ltd.* (東莞市莞商實業投資有限公司) since June 2013, the deputy general manager of Dongguan Shenshi Industry and Investment Co., Ltd.* (東莞市聖興實業投資有限公司) from August 2013, the general manager of Hangzhou Lingteng Internet and Technology Limited (Dongguan Branch)* (杭州領騰互聯網科技有限公司東莞分公司) between November 2017 and December 2020 and the director of Dongguan Zhaofeng Environment and Protection Co., Ltd.* (東莞市兆豐環保股份有限公司) (NEEQ: 872140) from January 2019. In addition, Mr. Chen has served as a supervisor of the third session of the board of supervisors of Yunfu Xinxing Dongying County Bank*, our non-wholly owned subsidiary, since April 2019.

In July 2013, Mr. Chen graduated from Sun Yat-sen University (中山大學), majoring in business administration (distance learning). Mr. Chen is a standing director of the second session of the committee of the Dongguan Association of International Entrepreneurs (東莞世界莞商聯合會), the vice president of the third session of the committee of the Dongguan Overseas Scholars Association (東莞市僑聯歸國留學人員聯誼會), the vice chairman of the first session of the committee of Dongguan Federation of Young Entrepreneurs (東莞市青年企業家聯合會), the vice chairman of the standing committee of Dongguan Songshan Federation of Entrepreneurs (東莞松山湖莞商聯合會), the honorary chairman of the third session of the committee of Dongguan Dalang Association of e-Commerce Operators (東莞市大朗電子商務協會) and the vice president of the fourth session of the committee of Association of Industry and Commerce of Dalang Town of Dongguan (東莞市大朗鎮工商聯(商會)).

**Independent Non-executive Directors**

**Mr. Yip Tai Him (葉棣謙先生)**, aged 51, was appointed as an independent non-executive Director on March 27, 2017.

Mr. Yip has over 25 years of experience in accounting, auditing and financial management. He is currently the director of Qing Lan C.P.A. Limited. Mr. Yip was the chief financial officer and director of Quam Securities Company Limited from November 1999 to December 2002.

Mr. Yip is currently or has been an independent non-executive director of the following companies listed on the Hong Kong Stock Exchange for the last three years:

| Companies | Period |
|---|---|
| Shentong Robot Education Group Company Limited (8206.HK) (formerly known as China Communication Telecom Services Company Limited, Shenzhou Aomei Networks (International) Co., Ltd. | Since October 2002 |
| GCL-Poly Energy Holdings Limited (3800.HK) | Since March 2009 |
| Redco Properties Group Limited (1622.HK) | Since January 2014 |
| China Carbon Neutral Development Group Limited (1372.HK) (formerly known as Bisu Technology Group International Limited and Excel Development (Holdings) Limited) | July 2015 to April 2019 |
| Sino Golf Holdings Ltd. (361.HK) | August 2015 to November 2018 |

| Companies | Period |
|---|---|
| Zhongchang International Holdings Group Limited (859.HK) | Since May 2020 |

Mr. Yip received a bachelor's degree of arts (hons) in accounting from the City Polytechnic of Hong Kong, (currently known as the City University of Hong Kong) in Hong Kong in November 1993. He has been a certified public accountant in Hong Kong since 1999. Mr. Yip was admitted as a member of the Association of Chartered Certified Accountants in the United Kingdom (a fellow since September 2001) and the Institute of Chartered Accountants in England and Wales in September 1996 and January 2006, respectively.

**Mr. Xu Zhi (許智先生)**, aged 49, was appointed as an independent non-executive Director on October 25, 2019.

From July 1993 to June 1995, Mr. Xu was a team leader of Guangdong Fudi Technology Co., Ltd.* (廣東福地科技股份有限公司) and from July 1995 to September 1997, Mr. Xu worked as a tax advisor at Xi'an Tax Consultation Firm* (西安市税務師事務所). In November 1997, Mr. Xu joined Dongguan Zhengliang Certified Public Accountants Co., Ltd.* (東莞市正量會計師事務所) and successively served as an auditor, project manager and deputy department manager. From September 2002 to March 2004, Mr. Xu was a senior project manager of Pan-China Certified Public Accountants LLP in Zhejiang* (浙江天健會計師事務所), a technical director of Guangdong Zhengliang Certified Public Accountants Co., Ltd.* (廣東正量會計師事務所有限公司) from March 2004 to October 2010, and the deputy director of Guangdong CCAT Certified Public Accountants Co., Ltd.* (廣東中誠安泰會計師事務所有限公司) from October 2010 to April 2015. He has been the deputy director of Dongguan Branch of ZhongShen ZhongHuan (ZSZH) Certified Public Accountants (Special General Partnership) (中審眾環會計師事務所(特殊普通合夥)) from May 2015 to December 2019. Mr. Xu has been the deputy director of Guangdong CCAT Certified Public Accountants Co., Ltd.* (廣東中誠安泰會計師事務所有限公司) since January 2020. In addition, Mr. Xu has been an independent director of HUCAIS Printing Co., Ltd.* (虎彩印藝股份有限公司) (834295.NEEQ) since November 2013, a director of Dongguan Tianyu Network Technology Co., Ltd.* (東莞市天宇網絡技術股份有限公司) (838309.NEEQ) since March 2020, a director of Hunan Haofang Jingxuan Network Technology Co., Ltd.* (湖南好房京選網絡科技有限公司) between March 2020 and December 2020 and an independent director of Guangdong Sinopatt Semiconductor Technology Co., Ltd.* (廣東中國半導體科技股份有限公司) since September 2020.

Mr. Xu graduated from Hangzhou Institute of Electrical Engineering (杭州電子工業學院) with a bachelor of economics degree in statistics in July 1993. He obtained the qualification of accountant from the Ministry of Finance of the PRC in May 1996 and was qualified as a Chinese certified public accountant in December 1997 and a Chinese certified tax agent in June 1999. He was also certified as an international certified internal auditor by The Institute of Internal Auditors in May 1999. Mr. Xu was a supervisor of the Police Anti-corruption Committee of Guangdong Public Security Department from December 2008 to December 2013, and a representative of the 11th and 12th Session of the National People's Congress of Guangdong Province (廣東省全國人民代表大會) in January 2008 and January 2013, respectively. Mr. Xu has been a representative of the 13th Session of the National People's Congress of Guangdong Province since January 2018.

**Mr. Shi Wenfeng (施文峰先生)**, aged 43, was appointed as an independent non-executive Director on October 25, 2019.

Mr. Shi successively served as a trainee cadre, clerk and assistant judge of the Municipal Court of Dongguan (東莞市人民法院) from July 2002 to December 2008. From January 2009 to May 2009, Mr. Shi was an assistant judge of Dongguan No.2 People's Court (東莞市第二人民法院), and was the associate presiding judge of Humen Court of Dongguan No.2 People's Court (東莞市第二人民法院虎門法庭) from May 2009 to April 2014. From April 2014 to January 2019, Mr. Shi had been the associate presiding judge of Civil Division IV, the presiding judge of Civil Division IV and the presiding judge and a committee member of Civil Division I of Dongguan No.2 People's Court. Since March 2019, Mr. Shi has been a senior consultant and a senior co-partner of Beijing DHH (Shenzhen) Law Firm (北京德和衡(深圳)律師事務所).

Mr. Shi graduated from the Guangdong University of Finance and Economics (廣州商學院) in July 2002, majoring in international economic law and obtained a bachelor's degree in laws and a master's degree in laws from Nankai University (南開大學) in December 2011. Mr. Shi obtained the certificate of PRC legal practitioner qualification from the Ministry of Justice of the PRC in February 2006. In addition, Mr. Shi was awarded a third-class merit by the Judicial Reform Office of the Supreme People's Court (最高人民法院司法改革辦公室) in April 2012 as he is the author of an article *The Demand and Response: The Judicial Disclosure from a Case* （《需求與回應：從個案看司法公開》） in *The Theory of Judicial Disclosure Theory* （《司法公開理論問題》）.

**Mr. Tan Fulong (譚福龍先生)**, aged 48, was appointed as an independent non-executive Director on October 25, 2019.

Since July 1997, Mr. Tan worked in Guangdong Junzheng Law Firm* (廣東君政律師事務所) initially as an assistant to the director, then as a practicing solicitor and subsequently as its partner. Mr. Tan is currently its practicing solicitor. In addition, Mr. Tan was an independent director of the 5th and 6th session of the board of directors as well as the chairman of the related party transaction control committee and member of the audit committee of the board of directors of the Bank of Dongguan Co., Ltd.* （東莞銀行股份有限公司） from April 2012 to January 2019.

Mr. Tan graduated from Zhongnan University of Economics & Law (中南財經政法大學) (distance learning) in July 2005 and obtained a bachelor's degree in laws. In addition, Mr. Tan was qualified as a practicing lawyer in the PRC in April 2001 and was qualified as a third-level lawyer by the Human Resources Bureau of Dongguan in October 2016. Mr. Tan attended the independent director qualification training organized by the Shanghai Stock Exchange and obtained the qualification certificate of independent director in September 2012.

Mr. Tan has been an expert in legislative consultation and assessment of the Standing Committee of the 16th Session of Dongguan Municipal People's Congress （東莞市人民代表大會常務委員會） since April 2017; a deputy director of the 11th Session of Guangdong Lawyers Association Professional Committee on the Law of Implementation and Disposal of Non-performing Assets (第十一屆廣東省律師協會執行與不良資產處置法律專業委員會) since October 2017; an expert of the Civil Administration Procuratorate Think Tank of the Dongguan People's Procuratorate（東莞市人民檢察院）since May 2019; and an expert of *Civil, Administrative and Prosecution Expert Consultation Web* (民事行政檢察專家諮詢網) appointed by the Sixth Procuratorate and Seventh Procuratorate of The Supreme People's Procuratorate of the PRC since March 2021. Mr. Tan is a member of the 13th Session of the Dongguan Committee of the Chinese People's Political Consultative Conference of Guangdong Province (中國人民政治協商會議廣東省東莞市委員會).

**Ms. Liu Yuou (劉宇鷗女士)**, aged 50, was appointed as an independent non-executive Director on October 25, 2019.

From July 1994 to September 1997, Ms. Liu was an audit officer of the audit department of the Guangdong Branch of the Bank of China Limited* (中國銀行股份有限公司廣東省分行). From September 1997 to October 1999, Ms. Liu was the manager of the financial department of the Guangzhou Branch of Scotiabank* (加拿大豐業銀行). Ms. Liu served as a certified public accountant, a real estate appraiser and a land appraiser of Dongguan Xiecheng Accounting Firm* (general partner) (東莞市協誠會計師事務所(普通合夥)) from January 2000 to December 2007, and has been a partner, a deputy chief accountant and a certified public accountant of Dongguan Zhengyu Accountants Firm* (general partner) (東莞市正域會計師事務所(普通合夥)) since January 2008.

Ms. Liu graduated from the Guangdong University of Technology (廣東工學院) in July 1994, majoring in industrial management engineering and obtained a bachelor's degree in engineering. In addition, she obtained the qualification of accountant from the Ministry of Finance of the PRC in May 1998 and was qualified as a certified public accountant in the PRC in December 1998. She also obtained the qualification of land appraiser and real estate appraiser in January 2003 and September 2003, respectively.

**Ms. Xu Tingting (許婷婷女士)**, aged 38, was appointed as an independent non-executive Director on October 25, 2019.

Ms. Xu was a financial manager of Dongguan Zhenglian Financial Consulting Co., Ltd.* (東莞市正聯財務諮詢有限公司) from September 2007 to March 2011. She has also served as a chief accountant of Dongguan Zhenglian C.P.A. Limited (general partner)* (東莞市正聯會計師事務所(普通合夥)) since April 2011.

Ms. Xu graduated from South China Agricultural University (華南農業大學) in July 2007, majoring in accounting and obtained a bachelor's degree in accounting and management. In addition, she obtained the qualification of an intermediate accountant from the Guangdong Provincial Department of Human Resources and Social Security in August 2009 and was qualified as a certified public accountant in the PRC in March 2011.

## SUPERVISORS

Pursuant to PRC Company Law, it is stipulated that a joint stock company must set up a board of supervisors responsible for supervising the performance of the board of directors and the senior management, and the financial activities of a joint stock company. Our Board of Supervisors comprises 12 Supervisors, including four employee Supervisors, four shareholder representative Supervisors and four external Supervisors. In accordance with our Articles of Association, the Supervisors shall have a term of three years and can be re-elected upon expiry. An external Supervisor shall not serve for more than six years. The following table sets forth the particulars of our Supervisors:

| Name | Age | Date of joining our Bank | Date of appointment as a Supervisor | Position | Responsibilities |
|---|---|---|---|---|---|
| Mr. Chen Sheng (陳勝先生) | 46 | August 2018 | September 25, 2018 | Chairman of the Board of Supervisors and employee Supervisor | Responsible for the work of the Board of Supervisors; in charge of the audit department; supervision of the performance of Directors and senior management and the financial activities, internal control and risk management of our Bank; being a member of the Nomination Committee of the Board of Supervisors |
| Ms. Deng Yanwen (鄧燕雯女士) | 49 | May 1992[1] | October 17, 2019 | Employee Supervisor | Participate in supervision of the performance of Directors and senior management and the financial activities, internal control and risk management of our Bank; being a member of the Nomination Committee of the Board of Supervisors |
| Mr. Wu Lixin (伍立新先生) | 52 | June 1989[2] | October 17, 2019 | Employee Supervisor | Participate in supervision of the performance of Directors and senior management and the financial activities, internal control and risk management of our Bank; being a member of the Supervisory Committee of the Board of Supervisors |
| Mr. Liang Zhifeng (梁志鋒先生) | 47 | March 2019 | October 17, 2019 | Employee Supervisor | Participate in supervision of the performance of Directors and senior management and the financial activities, internal control and risk management of our Bank; being a member of the Supervisory Committee of the Board of Supervisors |

| Name | Age | Date of joining our Bank | Date of appointment as a Supervisor | Position | Responsibilities |
|---|---|---|---|---|---|
| Mr. Lu Chaoping (盧超平先生) | 57 | November 2005[3] | December 5, 2009[3] | Shareholder representative Supervisor | Participate in supervision of the performance of Directors and senior management and the financial activities, internal control and risk management of our Bank |
| Mr. Wang Zhujin (王柱錦先生) | 57 | November 1997[4] | October 25, 2019 | Shareholder representative Supervisor | Participate in supervision of the performance of Directors and senior management and the financial activities, internal control and risk management of our Bank |
| Mr. Liang Jiepeng (梁杰鵬先生) | 36 | October 2019 | October 25, 2019 | Shareholder representative Supervisor | Participate in supervision of the performance of Directors and senior management and the financial activities, internal control and risk management of our Bank |
| Mr. Zou Zhibiao (鄒志標先生) | 31 | October 2019 | October 25, 2019 | Shareholder representative Supervisor | Participate in supervision of the performance of Directors and senior management and the financial activities, internal control and risk management of our Bank |
| Ms. Wei Haiying (衛海英女士) | 57 | October 2019 | October 25, 2019 | External Supervisor | Participate in supervision of the performance of Directors and senior management and the financial activities, internal control and risk management of our Bank; being a member of the Nomination Committee of the Board of Supervisors |
| Mr. Yang Biao (楊彪先生) | 41 | October 2019 | October 25, 2019 | External Supervisor | Participate in supervision of the performance of Directors and senior management and the financial activities, internal control and risk management of our Bank; being the chairman of the Nomination Committee of the Board of Supervisors |

| Name | Age | Date of joining our Bank | Date of appointment as a Supervisor | Position | Responsibilities |
|---|---|---|---|---|---|
| Mr. Zhang Bangyong (張邦永先生) | 42 | October 2019 | October 25, 2019 | External Supervisor | Participate in supervision of the performance of Directors and senior management and the financial activities, internal control and risk management of our Bank; being the chairman of the Supervisory Committee of the Board of Supervisors |
| Ms. Mai Xiuhua (麥秀華女士) | 50 | October 2019 | October 25, 2019 | External Supervisor | Participate in supervision of the performance of Directors and senior management and the financial activities, internal control and risk management of our Bank; being a member of the Supervisory Committee of the Board of Supervisors |

*Notes:*

1. *Joined Dongguan Rural Credit Cooperatives Association* (東莞農村信用合作社聯合社), which merged with 32 rural credit cooperatives at town (district) level in Dongguan in November 2005 and became Dongguan Rural Credit Cooperatives Union (東莞市農村信用合作聯社), the predecessor of our Bank, in May 1992.*

2. *Joined Dongguan Chang'an Credit Cooperative* (東莞長安信用社) in June 1989 and was reassigned to Dongguan Rural Credit Cooperatives Association* (東莞農村信用合作社聯合社) in March 1992. In November 2005, Dongguan Rural Credit Cooperatives Association* (東莞農村信用合作社聯合社), Dongguan Chang'an Credit Cooperative* (東莞市長安信用社) and 31 other rural credit cooperatives at town (district) level in Dongguan were merged and became Dongguan Rural Credit Cooperatives Union (東莞市農村信用合作聯社), the predecessor of our Bank.*

3. *Served as a supervisor of the board of supervisors of Dongguan Rural Credit Cooperatives Union (東莞市農村信用合作聯社), the predecessor of our Bank, from November 2005 to December 2009, and was appointed as a Supervisor at the inauguration meeting and the first shareholders' general meeting held in December 2009 before the establishment of our Bank.*

4. *Joined Dongguan Shipai Credit Cooperative* (東莞市石排信用社) in November 1997. In November 2005, Dongguan Shipai Credit Cooperative* (東莞市石排信用社), Dongguan Rural Credit Cooperatives Association* (東莞農村信用合作社聯合社) and 31 other rural credit cooperatives at town (district) level in Dongguan were merged and became Dongguan Rural Credit Cooperatives Union (東莞市農村信用合作聯社), the predecessor of our Bank. Left in July 2015 and rejoined our Bank in October 2019 as a shareholder representative Supervisor.*

**Mr. Chen Sheng (陳勝先生)**, aged 46, was appointed as an employee Supervisor on September 25, 2018 and appointed as the chairman of the Board of Supervisors on September 27, 2018.

Mr. Chen joined the Bank in August 2018 as a member of the communist committee, secretary of the disciplinary committee and ceased to act as the secretary of the disciplinary committee since November 2018. Before joining the Bank, Mr. Chen was successively a staff, deputy chief, chief and assistant researcher at the general office of Guangdong People's Government from July 1996 to March 2006 and had been seconded to a task force responsible for investigation under the Disciplinary Committee of Guangdong Province during the period. Mr. Chen was a deputy head of the office, deputy general manager and general manager of the administration department of Guangdong Province Rural Credit Cooperatives Association* (廣東省農村信用社聯合社) and a committee secretary of the Communist Youth League of Guangdong Province Rural Credit Cooperatives Association* (共青團廣東省農村信用社聯合社) from March 2006 to November 2016, chairman of the board of supervisors and secretary of the disciplinary committee of Huizhou Rural Commercial Bank Co., Ltd.* （惠州農村商業銀行股份有限公司） from October 2012 to July 2017, and chief officer of the Resident CCPC Office and head of the organization department of the party committee of Guangdong Province Rural Credit Cooperatives Association* （廣東省農村信用社聯合社） from July 2017 to August 2018.

Mr. Chen graduated from the finance department of Guangzhou University (廣州大學) in July 1996 and completed a business administration program provided by South China Normal University (華南師範大學) (distance learning) in February 2007. Mr. Chen obtained a master's degree in economics from Jinan University (暨南大學) in January 2011.

In addition, Mr. Chen was accredited as an intermediate financial tax economist in November 2002 by the Ministry of Personnel of the PRC and awarded the qualification certificate of banking professional in bank management (intermediate level) by the China Banking Association in October 2020.

**Ms. Deng Yanwen (鄧燕雯女士)**, aged 49, was appointed as an employee Supervisor on October 17, 2019.

Ms. Deng joined the Dongguan Rural Credit Cooperatives Association* (東莞農村信用合作社聯合社) and Dongguan Rural Credit Cooperatives Union (東莞市農村信用合作聯社), the predecessors of our Bank, in May 1992 and served successively as a staff and deputy supervisor and assistant manager of the business department, assistant manager of the finance and accounts department deputy director of the finance and accounts department cum the deputy director of the business department, deputy director of the financial supervisory department, manager of the supervision and audit department and the manager of the human resources development department. After the establishment of the Bank, Ms. Deng has successively served as the general manager of the human resources department and director of the Board of Supervisors office of our Bank since April 2010.

Ms. Deng graduated from the Department of Management Engineering of South China University of Technology (華南理工大學) in July 1992, majoring in corporate management and graduated from the Guangdong Polytechnic Normal University (廣東技術師範學院) in July 2004, majoring in accounting (distance learning).

**Mr. Wu Lixin (伍立新先生)**, aged 52, was appointed as an employee Supervisor on October 17, 2019.

Mr. Wu joined the Dongguan Rural Credit Cooperatives Association* (東莞農村信用合作社聯合社), the predecessor of the Bank, in June 1989 and had held various positions in the credit cooperatives at town level, including the head of the audit team of Chang'an Credit Cooperative* (長安信用社), deputy director of Dalingshan Credit Cooperative* (大嶺山信用社), and director of Nancheng Credit Cooperative* (南城信用社), Humen Credit Cooperative* (虎門信用社) and Chang'an Credit Cooperative* (長安信用社). After the establishment of the Bank, Mr. Wu served as the president of Chang'an sub-branch of our Bank from January 2010 to December 2013, and president of Huang Jiang sub-branch of our Bank from January 2014 to January 2019. He has been the chairman of Huizhou Zhongkai Dongying County Bank* (惠州仲愷東盈村鎮銀行), a non wholly-owned subsidiary of our Bank, since February 2019.

Mr. Wu graduated from the Open University of China (中央廣播電視大學) in April 2005, majoring in finance. He also obtained a degree of executive master of business administration from Zhongnan University of Economics and Law (中南財經政法大學) in December 2006. Mr. Wu obtained the qualification of an economist from the Dongguan Human Resources Bureau in November 2012.

**Mr. Liang Zhifeng (梁志鋒先生)**, aged 47, was appointed as an employee Supervisor on October 17, 2019.

Mr. Liang successively served as the officer, section member, deputy section head and section head of Dongguan Audit Bureau (東莞市審計局) from July 1997 to March 2015, and served as the director of Dongcheng branch of Dongguan Finance Bureau (東莞市財政局東城分局) from March 2015 to March 2019. Mr. Liang joined our Bank in March 2019, and successively served as the general manager of the service supervision center (currently known as corporate culture department upon reformation) and general manager of the institution management department currently known as assets and liabilities management department upon reformation, and is currently the president of Humen sub-branch of our Bank.

Mr. Liang graduated from Tianjin University of Commerce (天津商學院) in July 1997, majoring in accounting (accounting computerization), and obtained a bachelor's degree in economics. He was also qualified as a certified auditor by the National Audit Office of the PRC in October 2000.

**Mr. Lu Chaoping (盧超平先生)**, aged 57, was appointed as a shareholder representative Supervisor on December 5, 2009. From November 2005 to December 2009, Mr. Lu served as a supervisor of the Council of Dongguan Rural Credit Cooperatives Union (東莞市農村信用合作聯社), the predecessor of our Bank.

Mr. Lu served as the executive director of Dongguan Shenzhou Industrial Investment Co., Ltd.* (東莞市神洲實業投資有限公司) since February 1990 and has been the chairman of Dongguan Shenzhou Industrial Development Co., Ltd.* (東莞市神洲實業開發有限公司) since July 1996. Mr. Lu was appointed as the vice president of the China Trade and Economic Promote Association (中國經濟貿易促進會) in 2012, and served as the vice chairman of the General Chamber of Commerce of Guangdong Federation of Industry and Commerce (廣東省工商業聯合會直屬會員商會) from January 2013 to December 2016.

Mr. Lu graduated from the Party School of the Central Committee of CPC (中央黨校) in November 2002 and obtained a bachelor's degree in business administration. Mr. Lu was awarded the title of Top Ten Outstanding Contribution SME Entrepreneur of China in 2009 (2009年中國中小企業十大傑出貢獻企業家) and Top Ten Property Managers of China in 2009 (2009年中國房地產管理十大領軍人物) by China Academy of Management Science and the title of Most Innovative Individual for the 60th Anniversary of China (建國60周年創新人物) and Special Contribution Award for the 60th Anniversary of China (建國60周年特殊奉獻人物) by China Non-governmental Enterprise Directors Association (中國民營企業家協會) and China Academy of Science Information Consulting Center (中國科學院信息諮詢中心) in August 2009. Mr. Lu was also the representative to the 15th Session of Dongguan Municipal People's Congress (東莞市人民代表大會) and 16th Session of People's Congress of Humen (虎門鎮人民代表大會).

**Mr. Wang Zhujin (王柱錦先生)**, aged 57, was appointed as a shareholder representative Supervisor on October 25, 2019.

Mr. Wang was a teacher of Yanwo Primary School (燕窩小學) in Shipai Town of Dongguan from August 1983 to November 1984. He also worked for the Shipai Town Supply and Marketing Cooperative in Dongguan of Guangdong Province* (廣東省東莞市石排供銷社) from December 1984 to June 1986, and the Shipai People's Government in Dongguan (東莞市石排鎮人民政府) from July 1986 to October 1997. Mr. Wang joined the Dongguan Rural Credit Cooperatives Association* (東莞農村信用合作社聯合社), the predecessor of the Bank, in November 1997 and held various positions in the credit cooperatives at town level, including the director of Shilong Credit Cooperative* (石龍信用社), president of Shilong sub-branch and president of Shipai sub-branch. Since August 2015, Mr. Wang has served as the chairman of Dongguan Jinda Industry Co., Ltd.* (東莞市錦達實業有限公司), mainly responsible for overseeing the overall operation of the company.

Mr. Wang graduated from Southwestern University of Finance and Economics (西南財經大學) in July 2008, majoring in finance (financial regulation) focus (distance learning).

**Mr. Liang Jiepeng (梁杰鵬先生)**, aged 36, was appointed as a shareholder representative Supervisor on October 25, 2019.

Mr. Liang served as an investment consultant of Tianjin Hexin Equity Investment Fund Partnership* (limited partnership) (天津市合信股權投資基金合夥企業) and Shanghai Junyin Equity Investment Partnership* (limited partnership) (上海峻銀股權投資合夥企業), respectively. Since November 2018, Mr. Liang has served as the general manager of Dongguan Hengguan Industrial Investment Co., Ltd.* (東莞市恒光實業投資有限公司). Currently, Mr. Liang is also the director of Shandong Hilead Biotechnology Co., Ltd.* (山東瀚霖生物技術有限公司) and the supervisor of Shenzhen Qianhai Penghuirong Industrial Investment Co., Ltd.* (深圳前海鵬輝榮實業投資有限公司).

Mr. Liang obtained a bachelor's degree in science from Imperial College of the University of London in August 2008. He graduated from Cass Business School of City, University of London in October 2009 and obtained a master's degree in science majoring in finance.

**Mr. Zou Zhibiao (鄒志標先生)**, aged 31, was appointed as a shareholder representative Supervisor on October 25, 2019.

From September 2011 to June 2014, Mr. Zou was the general manager of the operation department of Dongguan Yongwang Commercial Operation and Management Co., Ltd* (東莞市永旺商業經營管理有限公司). In September 2013, Mr. Zou became the business director of Guangdong Zhangde Industrial Investment Co., Ltd.* (廣東長德實業投資有限公司). Since July 2015, Mr. Zou was an executive director of Dongguan Huifeng Asset Management Co., Ltd.* (東莞市惠豐資產管理有限公司) and supervisor of Guangdong Wending Cultural Education Investment Co., Ltd.* (廣東文鼎文化教育投資有限公司). Since October 2016, Mr. Zou has been the executive director and manager of Dongguan Chuanghong Investment Co., Ltd.* (東莞市創泓股權投資有限公司).

Mr. Zou graduated from Wuhan Polytechnic University (武漢輕工大學) in July 2013, majoring in administration management (distance learning). He obtained the qualification as a fund practitioner from the Asset Management Association of the PRC in March 2019.

**Ms. Wei Haiying (衛海英女士)**, aged 57, was appointed as an external Supervisor on October 25, 2019.

Since July 1986, Ms. Wei has worked at the College of Economics and School of Management of Jinan University (暨南大學) successively as a teacher of the department of statistics of the College of Economics, a teacher of the MBA Education Center of the School of Management, the chief of the department of marketing of the School of Management and deputy head of the School of Management. She currently serves as a secretary to the party committee of the School of Management of Jinan University.

Ms. Wei graduated from the School of Statistics of Renmin University of China (中國人民大學) in July 1986, majoring in statistics and obtained a bachelor's degree in economics. She studied in monetary banking in Jinan University from September 1994 to June 1997 and obtained a master's degree in economics in June 1997. She obtained a doctor's degree in management specializing in management science and engineering from Huazhong University of Science and Technology (華中科技大學) in June 2006. Ms. Wei was appointed as a professor of Jinan University in October 2003. Ms. Wei obtained the Philosophy and Social Science Excellent Achievements Award in Guangdong Province (廣東省哲學社會科學優秀成果獎勵) from the Guangdong Provincial People's Government (廣東省人民政府) in May 2013 and October 2017, respectively, and obtained the Philosophy and Social Science Excellent Achievements Award in Guangdong Province (廣東省哲學社會科學優秀成果獎勵) from the Publicity Department of Guangdong Provincial Party Committee and the Guangdong Provincial Planning Leadership Group for Philosophy and Social Science (廣東省哲學社會科學規劃領導小組) in December 2015. Ms. Wei is also the vice president of Marketing Association of Guangdong (廣東營銷學會) and Guangdong Association of Quality Control (廣東質量協會).

**Mr. Yang Biao (楊彪先生)**, aged 41, was appointed as an external Supervisor on October 25, 2019.

From July 2005 to October 2008, Mr. Yang successively served as a chief officer and a deputy chief officer in the People's High Court of Guangdong Province (廣東省高級人民法院). Since November 2008, Mr. Yang successively served as the lecturer, associate professor and professor of the School of Law of Sun Yat-sen University (中山大學), and has been mainly responsible for research and lecturing of law. In addition, during his employment at Sun Yat-sen University, Mr. Yang was seconded to the People's Court of Huangpu District of Guangzhou (廣州市黃埔區人民法院) as an assistant to the chief judge from March 2015 to February 2016.

Mr. Yang serves as a director in a number of companies, including an independent director of Guangdong Guangzhou Daily Media Co., Ltd. (廣東廣州日報傳媒股份有限公司) (002181.SZ), an independent non-executive director of Shandong Chenming Paper Holdings Limited (山東晨鳴紙業集團股份有限公司) (1812.HK), an independent director of Circle Logistics Co., Ltd. (僑益物流股份有限公司) (833478.NEEQ), an independent director of Guangdong Tianhe Agricultural Means of Production Co., Ltd. (廣東天禾農資股份有限公司), an independent director of Guangdong Yuehai Feeds Group Co., Ltd. (廣東粵海飼料集團股份有限公司), a director of Guangzhou Sun Yat-sen University Science Park Co., Ltd. (廣州中山大學科技園有限公司), and a director of Guangzhou Zhongda Intellectual Services Co., Ltd.* (廣州中大知識產權服務有限公司).

Mr. Yang graduated from the Faculty of Law of Sun Yat-sen University (中山大學) in June 2003 and obtained a bachelor's degree in laws. He graduated from the Faculty of Law of Sun Yat-sen University, majoring in civil and commercial law and obtained a master's degree in laws in June 2005. He graduated from the Faculty of Law of Renmin University of China (中國人民大學), majoring in civil and commercial law and obtained a doctor's degree in laws in June 2008. Mr. Yang also obtained the legal profession qualification certificate from the Ministry of Justice of the PRC in March 2004.

**Mr. Zhang Bangyong (張邦永先生)**, aged 42, was appointed as an external Supervisor on October 25, 2019.

Between September 2005 and February 2012, Mr. Zhang has been a trainee solicitor and a solicitor of Guangdong Great Brothers Law Firm (廣東格雷兄弟律師事務所). He worked at Guangdong Baiqin Law Firm* (廣東百勤律師事務所) as a lawyer from February 2012 to December 2012. From December 2012 to October 2015, he was a director and lawyer of Guangdong Qinnuo Law Firm* (廣東勤諾律師事務所). From October 2015 to March 2021, he has been a partner of Guangdong Everwin Law Office (Dongguan)* (廣東法制盛邦(東莞)律師事務所). Since June 2021, Mr. Zhang has been a partner of Guangdong Qinyi Law Office* (廣東秦儀律師事務所).

Mr. Zhang graduated from Southwestern University of Political Science and Law (西南政法大學) in July 2003, majoring in law, and obtained a bachelor's degree in laws. In addition, Mr. Zhang was qualified as a PRC lawyer in October 2006.

**Ms. Mai Xiuhua (麥秀華女士)**, aged 50, was appointed as an external Supervisor on October 25, 2019.

From January 1996 to December 1999, Ms. Mai worked at Dongguan Sanjun Clothing Co., Ltd.* (東莞三駿時裝有限公司). From January 2000 to February 2001, Ms. Mai worked at Alps Logistics Co., Ltd.* (廣東阿爾卑斯物流有限公司). From February 2001 to June 2010, Ms. Mai was an audit project manager of Guangdong Zhengliang Accounting Firm Limited Company* (廣東正量會計師事務所有限公司) (now known as Guangdong Pan-China Certified Public Accountants LLP* (廣東天健會計師事務所有限公司)). Since June 2010, Ms. Mai has served as the technical supervisor of Dongguan Ruifeng Accounting Firm Co., Ltd.* (東莞市瑞豐會計師事務所有限公司) and Dongguan Ruiyi Accounting Firm Co., Ltd.* (東莞市瑞益稅務師事務所有限公司). Since August 2017, Ms. Mai has served as an independent director of Dongguan Yutong Optical Technology Co., Ltd.* (東莞市宇瞳光學科技股份有限公司) (300790.SZ).

Ms. Mai graduated from the engineering management department of Beijing Wuzi University (北京物資學院) in July 1993, majoring in engineering management and obtained a bachelor's degree in engineering. In addition, Ms. Mai was qualified as an asset appraiser in October 2002, a certified tax advisor in China in September 2003, a senior accountant by the Department of Personnel Human Resources of Guangdong Province in December 2006, a real estate appraiser in August 2006 and a certified public accountant in the PRC in December 2001. Ms. Mai is a representative of the 16th Session of the Dongguan Municipal People's Congress (東莞市人民代表大會) and a member of the finance and economy committee of the Dongguan Municipal People's Congress (東莞市人大財政經濟委員會).

## INTERESTS OF DIRECTORS AND SUPERVISORS

The interests in our Bank owned by the Directors and Supervisors within the meaning of Part XV of the SFO are set out in the section "Statutory and General Information — 4. Further Information about our Directors, Supervisors and Substantial Shareholders — B. Directors and Supervisors" in Appendix VII to this prospectus. Except as disclosed therein, none of the Directors and the Supervisors holds any interest in our Bank within the meaning of Part XV of the SFO.

Except as disclosed above, none of the Directors and the Supervisors: (i) held any other positions in our Group as of the Latest Practicable Date; (ii) had any other relationship with any Directors, senior management or substantial shareholders (if any) of our Bank as of the Latest Practicable Date; and (iii) held any other directorship in any listed companies in the three years prior to the Latest Practicable Date.

Except as disclosed above, none of our Directors (other than independent non-executive Directors) holds any interests in business that competes or is likely to compete with the business of our Group (as defined in note (1) of Rule 8.10(2) of the Listing Rules).

Except as disclosed herein, to the best of the knowledge, information and belief of our Directors and Supervisors after having made all reasonable enquiries, there was no additional matter with respect to the Directors or Supervisors that needs to be brought to the attention of the Shareholders and there was no additional information relating to the Directors or Supervisors that is required to be disclosed pursuant to Rules 13.51(2)(h) to (v) of the Listing Rules as of the Latest Practicable Date.

## SENIOR MANAGEMENT

The following table sets forth certain information of the senior management of our Bank:

| Name | Age | Date of joining our Bank | Date of appointment as senior management | Position | Responsibilities |
|---|---|---|---|---|---|
| Mr. Fu Qiang (傅強先生) | 51 | November 2018 | December 25, 2018 | Deputy secretary to the party committee, executive Director and president | Responsible for the comprehensive operation management of our Bank and in charge of assets and liabilities management department, internal control and compliance department, corporate culture department and rural revitalization financial services center |
| Mr. Ye Jianguang (葉建光先生) | 48 | July 1994[1] | June 18, 2013 | Member of the party committee, executive Director, vice president, chief risk officer, secretary to the Board of Directors and joint company secretary | In charge of the human resources department, credit approval department, comprehensive risk management and compliance department and the general office |

| Name | Age | Date of joining our Bank | Date of appointment as senior management | Position | Responsibilities |
|---|---|---|---|---|---|
| Mr. Chen Wei (陳偉先生) | 49 | July 1996[2] | September 27, 2018 | Member of the party committee, executive Director and vice president | In charge of the business department, financial market department, strategic customer department, investment banking and wealth management department, small and micro finance department, international banking department, finance department and security and protection department |
| Ms. Chen Dongmei (陳冬梅女士) | 49 | July 1993[3] | June 18, 2013 | Member of the party committee, vice president and chief information officer | In charge of the retail banking department, consumer finance and credit card department, private banking department, digital finance department, IT department and business management department, and assist with corporate culture department |

*Notes:*

1. *Joined Dongguan Rural Credit Cooperatives Association* (東莞農村信用合作社聯合社), which merged with 32 rural credit cooperatives at town (district) level in Dongguan in November 2005 and became Dongguan Rural Credit Cooperatives Union (東莞市農村信用合作聯社), the predecessor of the Bank, in July 1994; left December 2014 and rejoined our Bank in August 2016.*

2. *Joined Dongguan Rural Credit Cooperatives Association* (東莞農村信用合作社聯合社), which merged with 32 rural credit cooperatives at town (district) level in Dongguan in November 2005 and became Dongguan Rural Credit Cooperatives Union (東莞市農村信用合作聯社), the predecessor of the Bank, in July 1996; left March 2016 and rejoined our Bank in August 2016.*

3. *Joined Dongguan Rural Credit Cooperatives Association* (東莞農村信用合作社聯合社), which merged with 32 rural credit cooperatives at town (district) level in Dongguan in November 2005 and became Dongguan Rural Credit Cooperatives Union (東莞市農村信用合作聯社), the predecessor of the Bank, in July 1993.*

**Mr. Fu Qiang (傅強先生)**, deputy secretary to the party committee, executive Director and president of our Bank. For the biography of Mr. Fu Qiang, please see "— Directors — Executive Directors".

**Mr. Ye Jianguang (葉建光先生)**, a member of the party committee, executive Director, vice president, chief risk officer, secretary to the Board of Directors and joint company secretary of our Bank. For the biography of Mr. Ye Jianguang, please see "— Directors — Executive Directors".

**Mr. Chen Wei (陳偉先生)**, a member of the party committee, executive Director and vice president of our Bank. For the biography of Mr. Chen Wei, please see "— Directors — Executive Directors".

**Ms. Chen Dongmei (陳冬梅女士)**, aged 49, a member of the party committee, vice president and chief information officer of our Bank.

Ms. Chen held various positions at Dongguan Rural Credit Cooperatives Association* (東莞農村信用合作社聯合社), the predecessor of the Bank, from July 1993 to December 2006, including deputy section head of financial and accounting department, assistant manager of the business department and assistant manager of finance and accounting department. From December 2006 to March 2010, she served as the manager of finance and accounting department of Dongguan Rural Credit Cooperatives Union (東莞市農村信用合作聯社), the predecessor of the Bank. From March 2010 to June 2013, Ms. Chen was the general manager of financial department of our Bank, and has subsequently been appointed as our assistant president, member of the party committee, vice president and chief information officer.

Ms. Chen graduated from the faculty of finance and accounting of Guangdong University of Finance and Economics (廣東商學院) in June 1993, majoring in auditing, and obtained a bachelor's degree in economics. In November 1997, she was accredited as an intermediary financial economist qualification by the State Council of Personnel of the PRC. Ms. Chen was accredited as a wealth management planner by the Ministry of Labour and Social Security of the PRC in August 2006 and was accredited as an auditor by the Guangdong Provincial Department of Human Resources and Social Security (廣東省人力資源和社會保障廳) in October 2010.

## JOINT COMPANY SECRETARIES

**Mr. Ye Jianguang (葉建光先生)**, was appointed as one of the joint company secretaries of our Bank on April 1, 2021. For the biography of Mr. Ye, please see "— Directors — Executive Directors".

**Mr. Wong Wai Chiu (黃偉超先生)** was appointed as one of the joint company secretaries of our Bank on April 1, 2021. Mr. Wong is the associate director of SWCS Corporate Services Group (Hong Kong) Limited and has extensive compliance and listed corporate secretarial experience including acting as the company secretary, information technology senior management and senior law enforcement officer in the areas of regulatory compliance and enforcement, internal control, corporate governance, company secretarial work, trust, financial crime investigation and forensics accounting in insurer, the Independent Commission Against Corruption and the Hong Kong Stock Exchange.

Mr. Wong is a fellow of The Hong Kong Chartered Governance Institute (formerly known as The Hong Kong Institute of Chartered Secretaries), a fellow of The Chartered Governance Institute of the United Kingdom, a member of CPA Australia and a certified trust practitioner of the Hong Kong Trustees' Association Limited.

Mr. Wong has been admitted the degree of Bachelor of Social Sciences by The University of Hong Kong, granted a Postgraduate Diploma in English and Hong Kong Law (Common Professional Examination) from the Manchester Metropolitan University, awarded a Master of Arts in Arbitration and Dispute Resolution degree from City University of Hong Kong and Master of Applied Science degree from the University of Technology, Sydney.

## COMMITTEES UNDER THE BOARD OF DIRECTORS

There are six committees set up under our Board of Directors, namely the Strategic Decision and Sannong Committee, the Comprehensive Risk Management Committee, the Nomination and Remuneration Committee, the Related Party Transaction Control Committee, the Audit Committee and the Consumer Rights Protection Committee. The committees have their respective written terms of reference.

The following table sets forth the membership of each of the committees under the Board of Directors:

| Name | Strategic Decision and Sannong Committee | Comprehensive Risk Management Committee | Nomination and Remuneration Committee | Related Party Transaction Control Committee | Audit Committee | Consumer Rights Protection Committee |
|---|---|---|---|---|---|---|
| ***Executive Director*** | | | | | | |
| Mr. Wang Yaoqiu | C | | | | | |
| Mr. Fu Qiang | M | | | | | C |
| Mr. Ye Jianguang | | C | | M | | |
| Mr. Chen Wei | | | | | | |
| ***Non-executive Director*** | | | | | | |
| Mr. Lai Chun Tung | M | | | | | |
| Mr. Wang Junyang | M | M | | | | |
| Mr. Cai Guowei | | | | | | M |
| Mr. Ye Jinquan | | | M | | | |
| Mr. Chen Haitao | M | | | | | M |
| Mr. Zhang Qingxiang | | M | | | | |
| Mr. Chen Weiliang | | | | | M | |
| ***Independent non-executive Director*** | | | | | | |
| Mr. Yip Tai Him | | | C | | | |
| Mr. Xu Zhi | | M | | | C | |
| Mr. Shi Wenfeng | | | M | C | | |
| Mr. Tan Fulong | | | M | M | | |
| Ms. Liu Yuou | | | | M | M | |
| Ms. Xu Tingting | | | | | M | M |

*Key:*

C Chairman of the relevant committee
M Member of the relevant committee

***Strategic Decision and Sannong Committee***

The Strategic Decision and Sannong Committee consists of five Directors, namely Mr. Wang Yaoqiu (王耀球先生) (chairman), Mr. Fu Qiang (傅強先生), Mr. Lai Chun Tung (黎俊東先生), Mr. Wang Junyang (王君揚先生) and Mr. Chen Haitao (陳海濤先生). The primary duties of the Strategic Decision and Sannong Committee include:

- to determine the operation and management goals and long-term development and strategic plans of our Bank;

- to consider and propose major investment and financing proposals that are subject to the approval of the Board of Directors according to the Articles of our Bank;

- to consider and propose major capital activities and asset operation that are subject to the approval of the Board of Directors according to the Articles of our Bank;

- to consider and propose other important matters significant to the development of our Bank;
- to supervise and review the implementation of the annual operation plan and investment proposals of our Bank;
- to devise strategies for promoting green credit of the Bank, review its objectives and reports from the senior management before submission to the Board for approval;
- to formulate business development strategies and plans for "Sannong" business in accordance with the "Sannong" development policies introduced by the government and regulatory authorities; to review annual resources allocation plans for "Sannong" business, and to evaluate and supervise the implementation of such plans by the management;
- to supervise the formulation of "Sannong" business plan and related systems;
- to supervise the development of new financial services and products for "Sannong" business; and
- to deal with other matters as authorized by the Board of Directors.

***Comprehensive Risk Management Committee***

The Comprehensive Risk Management Committee consists of four Directors, namely Mr. Ye Jianguang (葉建光先生) (chairman), Mr. Wang Junyang (王君揚先生), Mr. Zhang Qingxiang (張慶祥先生) and Mr. Xu Zhi (許智先生). The primary duties of the Comprehensive Risk Management Committee include:

- to study and adopt the economic and financial directions, policies, laws, regulations and rules of the government, the regulatory framework of the regulating authorities, and to provide guidelines on the establishment of comprehensive risk management system, risk strategies and general risk management policies of our Bank;
- to engage intermediaries to review the risk management of our management at operational level in respect of credit, market, operation, liquidity, legal compliance, information technology, reputation and other aspects of our Bank on a regular basis as authorized by the Board of Directors;
- to conduct regular assessment of the overall status and effectiveness of the risk management of our Bank and to propose suggestions for improving risk management and internal control of our Bank;
- to supervise the senior management to take necessary measures to effectively identify, evaluate, monitor and control/mitigate risks in accordance with the regulatory requirements and the risk management requirements of our Bank;
- to ensure that the risk management system of our Bank is effectively reviewed and supervised by the internal audit department;
- to review the asset and liability management policies of our Bank and its implementation;
- to organize and give guidance on risk prevention as authorized by the Board of Directors;

- to have regular individual discussion with the compliance manager and adopt other effective means to understand the implementation of compliance policies and the and problems arising therefrom, provide opinions and recommendation on a timely basis to the Board of Directors or the senior management and supervise the effective implementation of compliance policies; and

- to deal with other matters as authorized by the Board of Directors.

***Nomination and Remuneration Committee***

The Nomination and Remuneration Committee consists of a non-executive Director and three independent non-executive Directors, namely Mr. Yip Tai Him (葉棣謙先生) (chairman), Mr. Ye Jinquan (葉錦泉先生), Mr. Shi Wenfeng (施文峰先生) and Mr. Tan Fulong (譚福龍先生). The primary duties of the Nomination and Remuneration Committee include:

- to review the structure, size and composition (including the skills, knowledge and experience) of the Board of Directors annually and make recommendations on any proposed changes to the Board of Directors to complement our corporate strategy;

- to formulate the diversity policy of the Board of Directors and measurable objectives;

- to assess the independence of independent non-executive Directors;

- to determine the procedures and criteria for selection and election of Directors and senior management;

- to identify and recommend qualified candidates for Directors and senior management;

- to conduct preliminary assessment on the qualifications and terms for the appointment of Directors and senior management and provide opinions to the Board of Directors;

- to make recommendations to the Board of Directors on the appointment or re-appointment of Directors and succession planning for Directors, in particular the chairman of our Board of Directors and our president;

- to make recommendations to the Board of Directors on the policy and structure for all Directors and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;

- to review the assessment criteria for performance of Directors and senior management, to conduct assessments and to make recommendations accordingly;

- to make recommendations to the Board of Directors on the remuneration packages (including benefits in kind, pension rights and compensation payments, such as any compensation payable for loss or termination of their office or appointment) of the Directors and senior management and to supervise its implementation, provided that no Director or its associate shall participate in determining his/her own salary;

- to consider and approve the employment contract of executive Directors;

- to review and approve the management's remuneration proposals with reference to the corporate goals and objectives determined by the Board of Directors;
- to consider salaries paid by comparable banks, time commitment and responsibilities and employment conditions elsewhere in our Group;
- to review and approve compensation payable to executive Directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive and to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate;
- to review the remuneration management system and policy of our Bank;
- to deal with other matters in relation to the duties of the committee as required by laws and regulations or as authorized by the Board of Directors.

***Related Party Transaction Control Committee***

The Related Party Transaction Control Committee consists of four Directors, namely Mr. Shi Wenfeng (施文峰先生) (chairman), Mr. Ye Jianguang (葉建光先生), Mr. Tan Fulong (譚福龍先生) and Ms. Liu Yuou (劉宇鷗女士). The primary duties of the Related Party Transaction Control Committee include:

- to implement and manage the policies regarding related party transactions;
- to promptly review related party transactions and to provide opinions accordingly;
- to control the risks of related party transactions; and
- to deal with other matters in relation to the duties of the committee as required by laws and regulations or as authorized by the Board of Directors.

***Audit Committee***

The Audit Committee consists of three independent non-executive Directors and one non-executive Director, namely Mr. Xu Zhi (許智先生) (chairman), Mr. Chen Weiliang (陳偉良先生), Ms. Liu Yuou (劉宇鷗女士) and Ms. Xu Tingting (許婷婷女士). The primary duties of the Audit Committee include:

- to review the financial and accounting policies, financial position and financial reporting procedures of our Bank and their implementation;
- to review the risk and compliance conditions of our Bank;
- to review and supervise the integrity of the financial statements, annual reports, audited annual financial reports and accounts, interim reports and quarterly report (if published) of our Bank; to review significant financial reporting judgments contained in them; to determine and report on the truthfulness, completeness and accuracy of the information set out in the audited financial reports; and to decide on whether the same should be submitted to the Board of Directors;

- to liaise with the Board of Directors and senior management and meet, at least twice a year, with the external auditors of our Bank;

- to review the relevant reports before submission to the Board of Directors, with particular focus on: (i) any changes in accounting policies and practices; (ii) major judgmental areas; (iii) significant adjustments resulting from audit; (iv) going concern assumptions and any qualifications; (v) compliance with accounting standards; and (vi) compliance with the Listing Rules and legal requirements in relation to financial reporting; and to consider any significant or unusual items that shall reflect, or may need to be reflected, in the report and accounts, with due consideration given to any matters that have been raised by our staff responsible for the accounting and financial reporting function, internal audit or auditors;

- to review the external auditor's management letter, any material queries raised by the external auditor to management about accounting records, financial accounts or systems of control and management's response; and to ensure that the Board of Directors will provide a timely response to the issues raised in the external auditor's management letter;

- to approve the internal audit regulations, medium-to-long-term audit plans and annual audit plans;

- to submit regular audit reports to the Board of Directors as well as the senior management and the Board of Supervisors;

- to supervise the implementation of remedial measures by the senior management for issues identified during audit and the implementation of audit recommendations;

- to review objections on the audit conclusion raised by the audit subject department;

- to make suggestions to the Board of Directors to hold the internal audit manager and the person-in-charge accountable;

- to make recommendations to the Board of Directors on the appointment, re-appointment, removal or replacement of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and to handle any issue in relation to the resignation or removal of such external auditor;

- to review and monitor the external auditor's independence, objectivity and the effectiveness of the audit process in accordance with applicable standards; and discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences;

- to develop and implement policy on engaging an external auditor, including any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party knowing all relevant information would reasonably conclude to be part of the audit firm nationally or internationally, to supply non-audit services; and report to the Board of Directors, identifying and making recommendations on any matters where action or improvement is needed;

- to supervise the establishment and implementation of the internal audit system of our Bank and to review the financial information of our Bank and its disclosure;

- to review arrangements that employees of our Bank can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters; and to ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action;

- to establish a whistleblowing policy and system for employees and those who deal with our Bank (e.g. customers and suppliers) to raise concerns, in confidence, with the audit committee about possible improprieties in any matter related to our Bank;

- to act as the key representative body for overseeing our relations with the external auditor, responsible for the communication between internal audit and external auditor and to monitor their relationship; ensure co-ordination between the internal and external auditors, and to ensure that the internal audit function is adequately resourced and has appropriate standing within our Bank, and to review and monitor its effectiveness;

- to review the financial control, risk management and internal control system of our Bank;

- to discuss the risk management and internal control systems with management to ensure that management has performed its duty to have effective systems, which should include the adequacy of resources, staff qualifications and experience, training programs and budget of the our Bank's accounting and financial reporting function;

- to consider major investigation findings on risk management and internal control matters as delegated by the Board of Directors or on its own initiative and management's response to these findings;

- to report to the Board of Directors on the matters under paragraph C.3 of the Corporate Governance Code under the Listing Rules; and

- to consider other topics as defined by the Board of Directors and to deal with other matters as authorized by the Board of Directors.

***Consumer Rights Protection Committee***

The Consumer Rights Protection Committee consists of four Directors, namely Mr. Fu Qiang (傅強先生) (chairman), Mr. Cai Guowei (蔡國偉先生), Mr. Chen Haitao (陳海濤先生) and Ms. Xu Tingting (許婷婷女士). The primary duties of the Consumer Rights Protection Committee include:

- to report to the Board of Directors on consumer rights protection related matters periodically;

- to oversee the establishment and enhancement of consumer rights protection system to ensure that the relevant policies are consistent with our corporate governance, corporate culture development and operational development strategy;

- to supervise the implementation of consumer rights protection related works by the senior management and consumer rights protection department in accordance with regulatory requirements, our strategies and policies and fulfillment status of our objectives;

- to convene consumer rights protection working meetings and to approve the work report by senior management and consumer rights protection department; and

- to deal with other matters as authorized by the Board or as required by the relevant regulatory requirements.

## COMMITTEES UNDER THE BOARD OF SUPERVISORS

The Board of Supervisors has established two committees, namely the nomination committee and supervisory committee, with written terms of reference.

The following table sets forth the membership of each of the committees under the Board of Supervisors:

| Name | Nomination Committee | Supervisory Committee |
|---|---|---|
| ***Employee Supervisor*** | | |
| Mr. Chen Sheng | M | |
| Ms. Deng Yanwen | M | |
| Mr. Wu Lixin | | M |
| Mr. Liang Zhifeng | | M |
| ***Shareholder representative Supervisor*** | | |
| Mr. Lu Chaoping | | |
| Mr. Wang Zhujin | | |
| Mr. Liang Jiepeng | | |
| Mr. Zou Zhibiao | | |
| ***External Supervisor*** | | |
| Ms. Wei Haiying | M | |
| Mr. Yang Biao | C | |
| Mr. Zhang Bangyong | | C |
| Ms. Mai Xiuhua | | M |

*Key:*

C Chairman of the relevant committee
M Member of the relevant committee

### *Nomination Committee*

The Nomination Committee consists of four Supervisors, namely Mr. Yang Biao (楊彪先生) (chairman), Mr. Chen Sheng (陳勝先生), Ms. Wei Haiying (衛海英女士) and Ms. Deng Yanwen (鄧燕雯女士). The primary duties of the Nomination Committee include:

- to formulate the procedures and criteria of selection of Supervisors, conduct preliminary review of the qualification and conditions of candidates for Supervisors and to make recommendation to the Board of Supervisors;
- to supervise the selection and appointment of Directors;
- to conduct comprehensive evaluation of the performance of Directors, Supervisors and senior management and to report the results to the Board of Supervisors;
- to review the objectivity and reasonableness of the remuneration systems and policies of the Bank and the remuneration packages for senior management; and
- to deal with other matters as authorized by the Board of Supervisors.

***Supervisory Committee***

The Supervisory Committee consists of four Supervisors, namely Mr. Zhang Bangyong (張邦永先生) (chairman), Ms. Mai Xiuhua (麥秀華女士), Mr. Wu Lixin (伍立新先生) and Mr. Liang Zhifeng (梁志鋒先生). The primary duties of the Supervisory Committee include:

- to formulate the supervision proposal with respect of financial activities of the Bank and to conduct related inspection;
- to supervise the development of prudent business philosophy and values as well as strategies by the Board according to the conditions of the Bank;
- to supervise and inspect the business decision-making, risk management and internal control; and
- to deal with other matters as authorized by the Board of Supervisors.

## BOARD DIVERSITY POLICY

Our Bank has adopted a Board Diversity Policy (the "**Board Diversity Policy**") which stipulates the stance of the Board of Directors on diversification of members of the of Board of Directors and the directions to be implemented and continuously adopted in the course of its realization, to ensure achieving a proper balance in terms of diversity of members of our Board of Directors, which in turn can enhance the operational efficiency of our Board of Directors and maintain high level of corporate governance standard.

According to the Board Diversity Policy, various factors will be considered for the selection of candidates for board members, including but not limited to gender, age, cultural and educational background, professional expertise, skills, knowledge and length of service, to ensure a balanced composition of skills and experience of the Board of Directors in order to provide various perspectives, insights and challenge that enable the Board of Directors to discharge its duties and responsibilities effectively and to make good decision in line with the core businesses and strategy of the Bank.

The Nomination and Remuneration Committee of our Board of Directors shall comprehensively consider the background of the candidates for Directors according to the principles of Board Diversity Policy based on measurable factors when examining candidates for Directors and making recommendation to our Board of Directors. The committee shall review the structure, number and composition of members of our Board of Directors on an annual basis in accordance with the strategies of our Bank and make recommendations for adjustment. The Nomination and Remuneration Committee of our Board of Directors shall also supervise the implementation of the Board Diversity Policy.

## REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Our Bank offers our executive Directors, employees' representative Supervisors and senior management compensation in the form of salaries, discretionary bonuses, allowance and contributions to pension plans. Our non-executive Directors, independent non-executive Directors, shareholder representative Supervisors and external Supervisors are entitled to fixed compensation.

The total remuneration to our Directors and Supervisors for the years ended December 31, 2018, 2019 and 2020 and the three months ended March 31, 2021 were approximately RMB31.2 million, RMB39.2 million, RMB33.2 million and RMB11.7 million, respectively.

For the years ended December 31, 2018, 2019 and 2020 and the three months ended March 31, 2021, the five highest paid individuals of our Group included three, three, four and two Directors and nil, nil, one and nil Supervisor, respectively, and the emoluments payable to the remaining individuals were approximately RMB7.7 million, RMB8.7 million, RMB10.5 million and 4.2 million, respectively. The five highest paid individuals for the year ended December 31, 2020 included eight individuals as four individuals were tied for fifth place for the year.

It is estimated that remuneration before tax payable to the Directors and Supervisors for 2021 will be approximately RMB30.9 million based on the arrangements in force as at the Latest Practicable Date.

During the Track Record Period, no remuneration was paid or agreed to be paid to the Directors, Supervisors or the five highest paid individuals as an inducement to join or upon joining our Group, and no compensation was paid or agreed to be paid to the Directors, past Directors or the five highest paid individuals for the loss of office as director of members of our Group or other office in connection with the management members. None of the Directors waived or agreed to waive any emoluments.

Save as disclosed above, no other amounts have been paid or are payable in respect of 2018, 2019 and 2020 and the three months ended March 31, 2021 to the Directors, Supervisors or senior management by our Group.

## COMPLIANCE ADVISOR

Our Bank have appointed ICBC International Capital Limited as our compliance advisor pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, our Bank will promptly consult the compliance advisor (if necessary) in the following circumstances:

- before the publication of any regulatory announcement, circular or financial report;
- where a transaction, which might be a notifiable or connected transaction, is contemplated, including share issues and share repurchases;
- where our Bank proposes to use the proceeds of the Global Offering in a manner that is different from that detailed in this prospectus or where our business, developments or results deviate from any forecasts, estimates or other information in this prospectus; and
- where the Hong Kong Stock Exchange makes an inquiry of our Bank regarding unusual movements in the share price or trading volume of our H Shares, the possible development of a false market in our H Shares or any other matters pursuant to Rule 13.10 of the Listing Rules.

The terms of appointment of our compliance advisor will commence on the Listing Date and end on the date when our Bank distribute the annual report of our financial results for the first full financial year commencing after the Listing Date.

So far as the Directors are aware, immediately following the completion of the Global Offering, the following persons will have or be deemed or taken to have interests and/or short positions in the Shares or underlying Shares which would fall to be disclosed to our Bank under the provisions of Divisions 2 and 3 of Part XV of the SFO or will, directly or indirectly, be interested in 10% or more of the nominal values of any class of share capital carrying rights to vote in all circumstances at the general meetings of our Bank:

| | | | As at the Latest Practicable Date | | Immediately following the completion of the Global Offering | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | Assuming the Over-allotment Option is not exercised | | Assuming the Over-allotment Option is exercised in full | |
| Name of Shareholder | Nature of interest | Class of Shares | Number of Shares[1] | Approximate % of interest in our Bank | Number of Shares[1] | Approximate % of the relevant class of Shares | Approximate % of interest in our Bank | Approximate % of the relevant class of Shares | Approximate % of interest in our Bank |
| Mr. Guo Huiqiang | Interest in controlled corporation[2] | Domestic Shares | 299,247,910(L) | 5.21% | 299,247,910(L) | 5.21% | 4.34% | 5.21% | 4.24% |
| Ms. Yang Miaoxia | Interest of spouse[3] | Domestic Shares | 299,247,910(L) | 5.21% | 299,247,910(L) | 5.21% | 4.34% | 5.21% | 4.24% |
| Canvest Investment | Beneficial owner | Domestic Shares | 299,246,910(L) | 5.21% | 299,246,910(L) | 5.21% | 4.34% | 5.21% | 4.24% |
| | Interest in controlled corporation[4] | Domestic Shares | 1,000(L) | | 1,000(L) | | | | |
| State-owned Assets Supervision and Administration Commission of the People's Government of Dongguan (東莞市人民政府國有資產監督管理委員會) | Interest in controlled corporation[5] | H Shares | — | — | 120,192,000[6](L) | 10.47% | 1.74% | 9.10% | 1.70% |
| Dongguan City Transportation Investment Group Co., Ltd.* (東莞市交通投資集團有限公司) | Interest in controlled corporation[5] | H Shares | — | — | 120,192,000[6](L) | 10.47% | 1.74% | 9.10% | 1.70% |
| Dongguan City Fook Man Group Company* (東莞市福民集團公司) | Interest in controlled corporation[5] | H Shares | — | — | 120,192,000[6](L) | 10.47% | 1.74% | 9.10% | 1.70% |
| Fook Man Development Company Limited | Beneficial Owner | H Shares | — | — | 120,192,000[6](L) | 10.47% | 1.74% | 9.10% | 1.70% |

*Notes:*

1. (L) denotes long position

2. As at the Latest Practicable Date, the entire shareholding interest of Canvest Investment was held by Mr. Guo Huiqiang. Accordingly, Mr. Guo Huiqiang is deemed to be interested in all the Shares held by Canvest Investment under the SFO.

3. Ms. Yang Miaoxia is the spouse of Mr. Guo Huiqiang. Accordingly, Ms. Yang is deemed to be interested in all the Shares that Mr. Guo is interested in under the SFO.

4. Canvest Investment is also interested in 1,000 Domestic Shares held by its 90% owned subsidiary, Guangdong Canvest Environmental Investment Co., Ltd.* (廣東粵豐環保投資有限公司).

5. Fook Man Development Company Limited is wholly-owned by Dongguan City Fook Man Group Company*, which in turn is wholly owned by Dongguan City Transportation Investment Group Co., Ltd.*, a company wholly-owned by the State-owned Assets Supervision and Administration Commission of the People's Government of Dongguan. Accordingly, each of State-owned Assets Supervision and Administration Commission of the People's Government of Dongguan, Dongguan City Transportation Investment Group Co., Ltd.* and Dongguan City Fook Man Group Company* is deemed to be interest in all the Shares held by Fook Man Development Company Limited.

6. The percentage herein is calculated assuming the Offer Price has been determined at the mid-point of the indicative Offer Price range, being HK$8.32 per Offer Share as Fook Man Development Company Limited is our cornerstone investor who has agreed to subscribed for the Offer Shares for a prescribed monetary sum (rather than a prescribed number of Offer Shares). For details, please see "Cornerstone Investor".

Save as disclosed above, our Directors are not aware of any other person who will, immediately following the completion of the Global Offering, have or deemed or taken to have interests and/or short positions in the Shares or underlying Shares which would fall to be disclosed to our Bank under the provisions of Divisions 2 and 3 of Part XV of the SFO or will, directly or indirectly, be interested in 10% or more of the nominal values of any class of share capital carrying rights to vote in all circumstances at the general meetings of our Bank.

## OVERVIEW

We have entered into a cornerstone investment agreement with Fook Man Development Company Limited (the "**Cornerstone Investor**"), pursuant to which the Cornerstone Investor has agreed to, subject to certain conditions, subscribe at the Offer Price for such number of Offer Shares (rounded down to the nearest whole board lot of 1,000 H Shares) that may be purchased for with an amount of HK$1.0 billion as part of the International Offering (the "**Cornerstone Investment**").

The following table sets forth the investment amount and number of Offer Shares to be subscribed for by the Cornerstone Investor at different Offer Prices:

| | | | Assuming the Over-allotment Option is not exercised | | | Assuming the Over-allotment Option is fully exercised | | |
|---|---|---|---|---|---|---|---|---|
| Investment amount[1] | Final Offer Price[2] | Number of H Shares to be subscribed for | Approximate % of the International Offer Shares | Approximate % of the Offer Shares (being all our issued H Shares upon completion of the Global Offering) | Approximate % of the total Shares in issue upon completion of the Global Offering | Approximate % of the International Offer Shares | Approximate % of the Offer Shares (being all our issued H Shares upon completion of the Global Offering) | Approximate % of the total Shares in issue upon completion of the Global Offering |
| HK$1,000.0 million | HK$7.92 | 126,262,000 | 12.22% | 11.00% | 1.83% | 10.47% | 9.56% | 1.79% |
| | HK$8.32 | 120,192,000 | 11.63% | 10.47% | 1.74% | 9.97% | 9.10% | 1.70% |
| | HK$8.71 | 114,810,000 | 11.11% | 10.00% | 1.67% | 9.52% | 8.70% | 1.63% |

*Notes:*

(1) Excluding brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee.

(2) Being the low-end and mid-point of the indicative Offer Price and the maximum Offer Price, respectively.

Our Bank is of the view that the Cornerstone Investment will help raise the profile of our Bank and to signify the confidence of such investor in our business and prospect. The Cornerstone Investment will form part of the International Offering and the Cornerstone Investor will not subscribe for any Offer Share under the Global Offering other than those under the Cornerstone Investment. The Offer Shares to be subscribed by the Cornerstone Investor will rank *pari passu* in all respect with other Offer Shares and will be counted towards the public float of our Bank.

To the best knowledge of our Bank, (i) the Cornerstone Investor is an independent third party and is not a connected person of our Bank; (ii) the Cornerstone Investor is not accustomed to take instructions from our Bank, our subsidiaries, our Directors, Supervisors, president, chief executive, substantial Shareholder, existing Shareholders or their respective close associates in relation to the acquisition, disposal, voting or other disposition of the Offer Shares; and (iii) the subscription of the relevant Offer Shares by the Cornerstone Investor is not financed by our Bank, our subsidiaries, our Directors, Supervisors, president, chief executive, substantial Shareholder, existing Shareholders or their respective close associates.

Immediately following completion of the Global Offering, the Cornerstone Investor will not have any Board of Directors representation in our Bank, nor will it become a substantial Shareholder. With respect to the Cornerstone Investment, there is no side arrangement between our Bank and the Cornerstone Investor and, other than the H Shares agreed to be allocated to it, the Cornerstone Investor does not have any preferential right as compared to other investors under the International Offering under the Cornerstone Investment.

The Cornerstone Investor and its controlling entities are not listed on any stock exchange and the Cornerstone Investor has confirmed that all necessary approvals have been obtained with respect to the

Cornerstone Investment. In addition, the Cornerstone Investor has confirmed that it is an Independent Third Party of our Bank and its subscription under the Cornerstone Investment would be financed by utilizing its internal resources. The Cornerstone Investor or any of its affiliates, directors, officers, employees, agents or representatives, has not accepted or entered into any agreement or arrangement to accept any direct or indirect benefit by side letter or otherwise, from our Bank, any member of our Group, or any of their respective affiliates, directors, officers, employees, agents or representatives in the Global Offering or otherwise has engaged in any conduct or activity inconsistent with, or in contravention of, HKEX-GL51-13 of the Hong Kong Stock Exchange.

There is no deferred settlement or delayed delivery arrangement under the Cornerstone Investment Agreement and the entire investment amount under the Cornerstone Investment shall be paid on or before the last day of the Hong Kong Public Offering.

The total number of Offer Shares to be subscribed by the Cornerstone Investor pursuant to the Cornerstone Investment will not be affected by reallocation of the Offer Shares between the International Offering and the Hong Kong Public Offering in the event of over-subscription under the Hong Kong Public Offering as described in the section headed "Structure of the Global Offering — The Hong Kong Public Offering — Reallocation". Details of the actual number of Offer Shares to be allocated to the Cornerstone Investor will be disclosed in the allotment results announcement of our Bank to be published on or around September 28, 2021.

## INFORMATION ON THE CORNERSTONE INVESTOR

The following sets forth certain information about the Cornerstone Investor which was provided by our Cornerstone Investor in connection with the Cornerstone Investment.

The Cornerstone Investor is a company incorporated in Hong Kong in April 1984 with limited liability and is indirect wholly-owned by the State-owned Assets Supervision and Administration Commission of the People's Government of Dongguan.

The Cornerstone Investor is principally engaged in investment holding and property investment and management, such as holding 25% equity interest in Dongguan Development Holding Co., Ltd.* (東莞發展控股有限公司) (Shenzhen Stock Exchange stock code: 000828.SZ) and commercial, residential and industrial properties in Hong Kong.

Our Bank came into discussion with the Cornerstone Investor on the Cornerstone Investment when its controlling shareholder noticed our proposed Listing and approached us, indicating their interest in investing in the Global Offering.

## COMPLETION CONDITIONS

The obligation of the Cornerstone Investor to acquire the Offer Shares under the Cornerstone Investment is subject to, among others, the following completion conditions:

(i) the Hong Kong Underwriting Agreement and the International Underwriting Agreement being entered into and having become effective and unconditional (in accordance with their respective original terms or as subsequently waived or varied by agreement of the parties thereto) by no later than the time and date as specified in these underwriting agreements, and neither of the Underwriting Agreements having been terminated;

(ii) the Offer Price having been agreed upon between our Bank and the Joint Global Coordinators (on behalf of themselves and the Underwriters);

(iii) the Listing Committee having granted the approval for the listing of, and permission to deal in, the H Shares (including the H Shares under the Cornerstone Investment) as well as other applicable waivers and approvals and such approval, permission or waiver not having been revoked prior to the commencement of dealings in the H Shares on the Hong Kong Stock Exchange;

(iv) no laws shall have been enacted or promulgated which prohibits the consummation of the transactions contemplated in the Global Offering or the cornerstone investment agreement, and there shall be no orders or injunctions from a court of competent jurisdiction in effect, precluding or prohibiting consummation of such transactions; and

(v) the representations, warranties, undertakings and confirmations given by the Cornerstone Investor under the cornerstone investment agreement being accurate and true in all respects and not misleading and that there is no material breach of the cornerstone investment agreement on the part of the Cornerstone Investor.

**LOCK-UP UNDERTAKING BY THE CORNERSTONE INVESTOR**

The Cornerstone Investor has agreed that it will not, whether directly or indirectly, at any time during the period of six months from the Listing Date, dispose of (as defined in the cornerstone investment agreement) any of the relevant Offer Shares or any interest in any company or entity holding any of the relevant Offer Shares (the "**Lock-up Restriction**"), other than in certain limited circumstances such as transfer to its wholly-owned subsidiary provided that, amongst other requirements, such wholly-owned subsidiary will be bound by the same obligation as the Cornerstone Investor, including the Lock-up Restriction.

As at the Latest Practicable Date, our issued share capital comprised 5,740,454,510 Domestic Shares with nominal value of RMB1.00 each.

Immediately following the completion of the Global Offering, without taking into account of any H Share which may be issued upon the exercise of the Over-allotment Option, our issued share capital would be as follows:

| Class | Number of Shares | Approximate percentage of share capital |
|---|---|---|
| Domestic Shares | 5,740,454,510 | 83.33% |
| H Shares | 1,148,091,000 | 16.67% |
| Total | 6,888,545,510 | 100.00% |

If the Over-allotment Option is exercised in full, assuming no other Shares are issued, our issued share capital would be as follows:

| Class | Number of Shares | Approximate percentage of share capital |
|---|---|---|
| Domestic Shares | 5,740,454,510 | 81.30% |
| H Shares | 1,320,304,000 | 18.70% |
| Total | 7,060,758,510 | 100.00% |

## OUR SHARES

Upon completion of the Global Offering, our Bank would have two classes of Shares, namely Domestic Shares and H Shares. Both Domestic Shares and H Shares are ordinary shares in our share capital. However, apart from certain qualified domestic institutional investors in the PRC, qualified PRC investors under the Shanghai-Hong Kong Stock Connect and the Shenzhen-Hong Kong Stock Connect and other persons entitled to hold our H Shares pursuant to relevant PRC laws and regulations, or upon approval by any competent authorities, H Shares generally may not be subscribed by or traded between legal or natural persons of the PRC. On the other hand, Domestic Shares can only be subscribed by or traded between legal and natural persons of the PRC, qualified foreign institutional investors and qualified foreign strategic investors.

Domestic Shares and H Shares are regarded as different classes of Shares under our Articles of Association. The differences between Domestic Shares and H Shares, and the provisions on class rights, the dispatch of notices and financial reports to shareholders, dispute resolution, registration of shares on different registers of shareholders, the method of share transfer and appointment of dividend receiving agents are set forth in our Articles of Association and summarized in Appendix V — "Summary of Articles of Association" to this prospectus.

The rights conferred on any class of Shareholders may not be varied or abrogated unless approved by a special resolution of the Shareholders and by holders of such class of Shares at a separate class meeting. The circumstances which shall be deemed to be variation or abrogation of the rights of a class of Shareholders are listed in Appendix V — "Summary of Articles of Association" to this prospectus. However, the procedures for approval by separate classes of Shareholders do not apply: (i) where we issue, upon approval by a special resolution of the Shareholders in a general meeting, Shares representing no more than 20% of each of the existing issued Domestic Shares and H Shares, either separately or concurrently every 12 months; (ii) where our plan to issue Domestic Shares and H Shares at the time of our establishment is implemented within 15 months from the date of approval by the securities regulatory authorities of the State Council; or (iii) where our Domestic Shareholder transfers his Shares to foreign investors for listing and trading on overseas stock exchange with the approval of the relevant regulatory authorities such as the banking regulatory authorities and the securities regulatory authorities of the State Council.

Except for the differences above and the entitlement of the special dividend declared pursuant to the resolution of our Shareholders general meeting on April 25, 2019 and resolution of our Board of Directors dated September 6, 2021, Domestic Shares and H Shares will rank *pari passu* with each other in all other respects and, in particular, will rank equally for all dividends or distributions declared, paid or made after the date of this prospectus. However, all dividends in respect of the H Shares are to be declared in Renminbi and paid in Hong Kong Dollars whereas all dividends in respect of Domestic Shares are to be declared and paid in Renminbi. In addition to cash, dividends may be distributed in the form of Shares. For details of the aforementioned special dividend, please see "Financial Information — Dividend — Special Dividend".

## CONVERSION OF DOMESTIC SHARES INTO H SHARES

Pursuant to the regulations prescribed by the CSRC and the Articles of Association, Domestic Shares may be converted into H Shares after completing the requisite internal process and obtaining the approval(s) from the relevant regulatory authorities, including the CSRC. In addition, such conversion and listing shall comply with the relevant rules of China Securities Depository and Clearing Corporation Limited and the Hong Kong Stock Exchange.

If any Domestic Shares are to be converted into H Shares and traded on the Hong Kong Stock Exchange, application shall be made to the CSRC and the listing and trading of such converted H Shares on the Hong Kong Stock Exchange also requires the approval of the Hong Kong Stock Exchange.

Based on the procedures for the conversion of Domestic Shares into H Shares as disclosed below, our Bank may apply for the listing of all or any portion of the Domestic Shares on the Hong Kong Stock Exchange as H Shares before any proposed conversion to ensure that the conversion process can be completed promptly upon notice to the Hong Kong Stock Exchange and delivery of Shares for entry on the H Share register. As any listing of additional Shares after our initial listing on the Hong Kong Stock Exchange is ordinarily considered by the Hong Kong Stock Exchange to be a purely administrative matter, it does not require application for listing at the time of the Listing.

No approval by separate class meeting is required for the listing and trading of such converted Shares on an overseas stock exchange pursuant to the Articles of Association. Any application for listing of the converted H Shares on the Hong Kong Stock Exchange after our initial listing is subject to prior notification by way of announcement to inform the Shareholders and the public of any proposed conversion.

After all the requisite approvals have been obtained, the record of the relevant Domestic Shares will be removed from the Domestic Share register and will be re-registered on our H Share register maintained in Hong Kong and the H Share Registrar will issue H Share certificates for the relevant Shares. Registration on our H Share register will be on the conditions that (i) our H Share Registrar lodges with the Hong Kong Stock Exchange a letter confirming the entry of the relevant H Shares on the H Share register and the due dispatch of H Share certificates; and (ii) the admission of the converted H Shares to be traded on the Hong Kong Stock Exchange by CCASS in compliance with the Listing Rules and the General Rules of CCASS and the CCASS Operational Procedures in force from time to time. Until the converted Shares are re-registered on our H Share register, such Shares will not be listed on the Hong Kong Stock Exchange.

## LOCK-UP PERIODS

Pursuant to Article 141 of the PRC Company Law, shares issued prior to any public offering of shares by a company cannot be transferred within one year from the date on which such shares are listed on the relevant stock exchange. Accordingly, the Domestic Shares in issue prior to the Listing Date will be subject to such statutory transfer restriction for a period of one year from the Listing Date. Our Bank will make this prospectus available on our website to notify our Domestic Shareholder in respect of such restriction.

Pursuant to the Notice on the Regulation of Internal Staff Shares in Financial Enterprises (《關於規範金融企業內部職工持股的通知》) jointly issued by the MOF, PBoC, CBRC, CSRC and CIRC, a listed or to be listed financial enterprise shall take steps to regulate the secondary market circulation of its internal staff shares held by its senior management and other individuals holding more than 50,000 shares and such senior management and individuals shall undertake not to transfer the shares held by him/her for a period of not less than three years from the date of listing and shall not transfer more than 15% of his/her total shareholdings each year or more than 50% of his/her total shareholdings within five years after the lock-up period.

In addition, each of our Directors, Supervisors and members of the senior management has further undertaken (i) not to transfer more than 25% of his/her shareholdings in our Bank each year during his/her tenure and (ii) not to transfer any Share held by him/her directly or indirectly within six months from the date he/she leaves his/her position in our Bank.

## REGISTRATION OF SHARES NOT LISTED ON AN OVERSEAS STOCK EXCHANGE

According to the Notice of Centralized Registration and Deposit of Non-overseas Listed Shares of Companies Listed on an Overseas Stock Exchange (《關於境外上市公司非境外上市股份集中登記存管有關事宜的通知》) issued by the CSRC, an overseas listed company is required to register its shares that are not listed on an overseas stock exchange with the China Securities Depository and Clearing Corporation Limited within 15 business days upon listing and provide a written report to the CSRC regarding the centralized registration and deposit of its non-overseas listed shares as well as the current offering and listing of shares.

## SHAREHOLDERS' GENERAL MEETINGS AND CLASS MEETINGS

For details of circumstances under which Shareholders' general meeting and Shareholders' class meeting are required, please refer to the sections headed "Notice of Meetings and Business to be Conducted Thereat" and "Change of Rights of Existing Shareholders or Classes of Shareholders" in "Appendix V — Summary of Articles of Association".

***You should read the discussion and analysis set forth in this section in conjunction with our consolidated financial statements, together with the accompanying Note included in Appendix I — Accountant's Report. Our historical financial information has been prepared in accordance with IFRS.***

***The following discussion and analysis contain forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements due to a number of factors, including those set forth in "Forward-looking statements" and "Risk Factors".***

## ASSETS

Our total assets increased by 13.1% from RMB407,904.7 million as of December 31, 2018 to RMB461,208.8 million as of December 31, 2019, and further increased by 18.9% to RMB548,402.0 million as of December 31, 2020. As of March 31, 2021, our total assets amounted to RMB564,558.2 million, representing an increase of 2.9% from our total assets as of December 31, 2020. The increase in our total assets during the Track Record Period was mainly due to the increases in loans and advances to customers and financial assets resulting from continuous growth in business. The principal components of our assets consisted of net loans and advances to customers and net financial investments, which represented 47.6% and 40.9% of our total assets as of March 31, 2021, respectively. The following table sets forth the components of our total assets as of the dates indicated.

| | As of December 31, | | | | | | As of March 31, | |
|---|---|---|---|---|---|---|---|---|
| | 2018 | | 2019 | | 2020 | | 2021 | |
| | Amount | % of total | Amount | % of total | Amount | % of total | Amount | % of total |
| | *(in millions of RMB, except percentages)* | | | | | | | |
| Loans and advances to customers[1] | 157,445.7 | 38.6% | 198,970.6 | 43.1% | 254,641.8 | 46.4% | 268,689.9 | 47.6% |
| Cash and balances with central banks | 40,296.9 | 9.9% | 39,557.2 | 8.6% | 38,576.5 | 7.0% | 36,955.9 | 6.5% |
| Financial assets held under resale agreements and deposits and placements with banks and other financial institutions | 15,033.6 | 3.7% | 21,299.7 | 4.6% | 18,707.4 | 3.4% | 19,338.9 | 3.4% |
| Financial investments | | | | | | | | |
| Financial assets at fair value through profit or loss | 34,974.7 | 8.6% | 30,254.8 | 6.6% | 36,101.6 | 6.6% | 37,097.2 | 6.6% |
| Financial investments at amortized cost | 67,979.6 | 16.7% | 86,869.6 | 18.8% | 111,667.9 | 20.4% | 109,770.4 | 19.4% |
| Financial investments at fair value through other comprehensive income | 86,043.1 | 21.1% | 78,350.9 | 17.0% | 79,943.6 | 14.6% | 84,139.0 | 14.9% |
| Investment in associates | 267.7 | 0.1% | 430.6 | 0.1% | 433.0 | 0.1% | 448.7 | 0.1% |
| Goodwill | — | — | 181.4 | 0.0% | 520.5 | 0.1% | 520.5 | 0.1% |
| Property and equipment | 1,396.1 | 0.3% | 1,577.6 | 0.4% | 2,432.8 | 0.4% | 2,466.7 | 0.4% |
| Right-of-use assets | 629.9 | 0.2% | 613.6 | 0.1% | 612.2 | 0.1% | 595.2 | 0.1% |
| Deferred tax assets | 1,683.8 | 0.4% | 2,018.1 | 0.5% | 3,054.2 | 0.6% | 3,089.1 | 0.5% |
| Other assets[2] | 2,153.6 | 0.4% | 1,084.7 | 0.2% | 1,710.5 | 0.3% | 1,446.7 | 0.4% |
| **Total assets** | **407,904.7** | **100.0%** | **461,208.8** | **100.0%** | **548,402.0** | **100.0%** | **564,558.2** | **100.0%** |

*Notes:*

(1) For ease of reference, in this prospectus, unless otherwise indicated, we use the terms "loans and advances to customers", "loans to customers" and "loans" synonymously.

(2) Consisted primarily of advances to suppliers, long-term deferred expenses, R&D expenditures clearing and settlement, and precious metal.

**Loans and Advances to Customers**

We provide various loan products to our customers. Substantially all of our customer loans are denominated in Renminbi. Our loans to customers are reported net of the allowance for expected credit losses on our consolidated statements of financial position. Unless otherwise specified, the following discussion is based on our total loans and advances to customers (excluding accrued interest). Our loans to customers, net of allowance for expected credit losses, represented 38.6%, 43.1%, 46.4% and 47.6% of our total assets as of December 31, 2018, 2019 and 2020 and March 31, 2021, respectively.

Our net loans to customers increased by 26.4% from RMB157,445.7 million as of December 31, 2018 to RMB198,970.6 million as of December 31, 2019, and increased by 28.0% to RMB254,641.8 million as of December 31, 2020, which further increased to RMB268,689.9 million as of March 31, 2021, reflecting the growth in our corporate loans and personal loans business.

The following tables set forth the distribution of our loans and advances to customers by business model and cash flow characteristics as of the dates indicated.

| | As of December 31, | | | | | | As of March 31, | |
|---|---|---|---|---|---|---|---|---|
| | 2018 | | 2019 | | 2020 | | 2021 | |
| | Amount | % of total | Amount | % of total | Amount | % of total | Amount | % of total |
| | (in millions of RMB, except percentages) | | | | | | | |
| **Loans and advances to customers at amortized cost** | | | | | | | | |
| Corporate loans | 95,480.1 | 58.1% | 107,682.3 | 52.3% | 134,299.3 | 51.4% | 141,649.6 | 51.4% |
| Personal loans | 49,541.7 | 30.1% | 80,048.3 | 38.9% | 98,015.9 | 37.5% | 105,073.8 | 38.1% |
| Discounted bills(1) | 147.3 | 0.1% | 127.7 | 0.1% | 1,318.3 | 0.5% | 1,643.4 | 0.6% |
| **Sub-total** | **145,169.1** | **88.3%** | **187,858.3** | **91.3%** | **233,633.5** | **89.4%** | **248,366.8** | **90.1%** |
| Loans and advances to customers at fair value through other comprehensive income(2) | 19,183.7 | 11.7% | 17,968.5 | 8.7% | 27,817.1 | 10.6% | 27,383.8 | 9.9% |
| **Total loans and advances to customers** | **164,352.8** | **100.0%** | **205,826.8** | **100.0%** | **261,450.6** | **100.0%** | **275,750.6** | **100.0%** |
| Accrued interest | 304.6 | | 438.3 | | 532.0 | | 591.9 | |
| Less: Allowance for expected credit loss | (7,211.7) | | (7,294.5) | | (7,340.8) | | (7,652.6) | |
| **Net loans and advances to customers** | **157,445.7** | | **198,970.6** | | **254,641.8** | | **268,689.9** | |

*Notes:*

(1) Only referred to the amount of discounted bills, excluding the amount of rediscounted bills.

(2) Consisted primarily of rediscounted bills and Forfaiting.

***Distribution of Loans to Customers by Business Line***

Our loans to customers consisted of corporate loans, personal loans and discounted bills. The following table sets forth our loans to customers by business line as of the dates indicated.

| | As of December 31, | | | | | | As of March 31, | |
|---|---|---|---|---|---|---|---|---|
| | 2018 | | 2019 | | 2020 | | 2021 | |
| | Amount | % of total | Amount | % of total | Amount | % of total | Amount | % of total |
| | *(in millions of RMB, except percentages)* | | | | | | | |
| Corporate loans | 95,480.1 | 58.1% | 107,682.3 | 52.3% | 136,673.6 | 52.3% | 144,660.6 | 52.5% |
| Personal loans | 49,541.7 | 30.1% | 80,048.3 | 38.9% | 98,015.9 | 37.5% | 105,073.8 | 38.1% |
| Discounted bills | 19,331.0 | 11.8% | 18,096.2 | 8.8% | 26,761.1 | 10.2% | 26,016.2 | 9.4% |
| **Total loans and advances to customers** | **164,352.8** | **100.0%** | **205,826.8** | **100.0%** | **261,450.6** | **100.0%** | **275,750.6** | **100.0%** |

*Corporate Loans*

Corporate loans were the largest component of our loan portfolio, representing 58.1%, 52.3%, 52.3% and 52.5% of our gross loans to customers as of December 31, 2018, 2019 and 2020 and March 31, 2021, respectively.

Our corporate loans increased by 12.8% from RMB95,480.1 million as of December 31, 2018 to RMB107,682.3 million as of December 31, 2019, and further increased by 26.9% to RMB136,673.6 million as of December 31, 2020. As of March 31, 2021, our corporate loans amounted to RMB144,660.6 million. The continued increase in our corporate loans was primarily due to our focus on corporate customers, in particular the SMEs, private enterprises and manufacturing industry, to further expand our customer base.

Distribution of Corporate Loans by Contract Maturity

The following table sets forth the distribution of our corporate loans by contract maturity as of the dates indicated.

| | As of December 31, | | | | | | As of March 31, | |
|---|---|---|---|---|---|---|---|---|
| | 2018 | | 2019 | | 2020 | | 2021 | |
| | Amount | % of total | Amount | % of total | Amount | % of total | Amount | % of total |
| | *(in millions of RMB, except percentages)* | | | | | | | |
| Medium- and long-term loans[1] | 65,496.5 | 68.6% | 72,915.7 | 67.7% | 95,617.7 | 70.0% | 100,672.6 | 69.6% |
| Short-term loans[2] | 29,983.6 | 31.4% | 34,766.6 | 32.3% | 41,055.9 | 30.0% | 43,988.0 | 30.4% |
| **Total corporate loans** | **95,480.1** | **100.0%** | **107,682.3** | **100.0%** | **136,673.6** | **100.0%** | **144,660.6** | **100.0%** |

*Notes:*

(1) Consisted of loans with maturities of longer than one year.

(2) Consisted of loans with maturities of one year or less.

During the Track Record Period, the majority of our corporate loans was medium-and long-term loans. Medium- and long-term loans represented 68.6%, 67.7%, 70.0% and 69.6% of our total corporate loans as of December 31, 2018, 2019 and 2020 and March 31, 2021, respectively. As of the same dates, short-term loans represented 31.4%, 32.3%, 30.0% and 30.4% of our total corporate loans, respectively.

Distribution of Corporate Loans by Product Type

The following table sets forth the distribution of our corporate loans by product type as of the dates indicated. For details of each type of our corporate loans, please see "Business — Our Principal Businesses — Corporate Banking Business — Main Products and Services — Corporate Loans".

| | As of December 31, | | | | | | As of March 31, | |
|---|---|---|---|---|---|---|---|---|
| | 2018 | | 2019 | | 2020 | | 2021 | |
| | Amount | % of total | Amount | % of total | Amount | % of total | Amount | % of total |
| | *(in millions of RMB, except percentages)* | | | | | | | |
| Fixed asset loans | 51,281.5 | 53.7% | 58,805.2 | 54.6% | 69,532.5 | 50.9% | 75,920.7 | 52.5% |
| Working capital loans | 42,826.5 | 44.9% | 46,655.2 | 43.2% | 63,073.1 | 46.1% | 63,458.3 | 43.9% |
| Others[(1)] | 1,372.1 | 1.4% | 2,221.9 | 2.2% | 4,068.0 | 3.0% | 5,281.6 | 3.6% |
| **Total** | **95,480.1** | **100.0%** | **107,682.3** | **100.0%** | **136,673.6** | **100.0%** | **144,660.6** | **100.0%** |

*Note:*

(1) Consisted primarily of mortgage loans on business premises and mechanical equipment.

Fixed asset loans represented 53.7%, 54.6%, 50.9% and 52.5% of our total corporate loans as of December 31, 2018, 2019 and 2020 and March 31, 2021, respectively. Our fixed asset loans increased by 14.7% from RMB51,281.5 million as of December 31, 2018 to RMB58,805.2 million as of December 31, 2019, and further increased by 18.2% to RMB69,532.5 million as of December 31, 2020. As of March 31, 2021, our fixed asset loans amounted to RMB75,920.7 million. The continued increase in our fixed asset loans was primarily due to the increases in our loans to infrastructure construction, manufacturing and urban renewal projects to support local development, which is in line with the urbanization in Dongguan and the development in the Greater Bay Area.

Working capital loans represented 44.9%, 43.2%, 46.1% and 43.9% of our total corporate loans as of December 31, 2018, 2019 and 2020 and March 31, 2021, respectively. Our working capital loans increased by 8.9% from RMB42,826.5 million as of December 31, 2018 to RMB46,655.2 million as of December 31, 2019, and increased significantly by 35.2% to RMB63,073.1 million as of December 31, 2020. As of March 31, 2021, our working capital loans amounted to RMB63,458.3 million. The continued increase was primarily due to our enhanced support of the increasing working capital needs of private enterprises and the manufacturing industry.

Distribution of Corporate Loans by Industry

Our corporate loans consisted of loans to corporate customers in a broad range of industries. The following table sets forth the distribution of our corporate loans by industry classification[1] as of the dates indicated.

| | As of December 31, | | | | | | As of March 31, | |
|---|---|---|---|---|---|---|---|---|
| | 2018 | | 2019 | | 2020 | | 2021 | |
| | Amount | % of total | Amount | % of total | Amount | % of total | Amount | % of total |
| | *(in millions of RMB, except percentages)* | | | | | | | |
| Manufacturing | 14,325.9 | 15.0% | 16,944.4 | 15.7% | 27,173.6 | 19.8% | 28,240.8 | 19.5% |
| Leasing and commercial services | 19,595.6 | 20.5% | 22,636.2 | 21.0% | 24,737.3 | 18.1% | 27,557.7 | 19.0% |
| Wholesale and retail | 20,452.8 | 21.4% | 23,342.2 | 21.7% | 24,274.5 | 17.8% | 26,192.4 | 18.1% |
| Construction | 16,908.8 | 17.7% | 17,791.3 | 16.5% | 20,860.8 | 15.3% | 22,276.2 | 15.4% |
| Real estate | 8,407.7 | 8.8% | 9,259.1 | 8.6% | 10,804.3 | 7.9% | 12,667.6 | 8.8% |
| Production and supply of power, gas and water | 4,878.8 | 5.1% | 4,501.8 | 4.2% | 5,322.4 | 3.9% | 5,915.7 | 4.1% |
| Transportation, logistics and postal services | 2,075.8 | 2.2% | 3,449.0 | 3.2% | 3,947.1 | 2.9% | 3,853.5 | 2.7% |
| Health, social security and welfare | 1,465.9 | 1.5% | 2,008.7 | 1.9% | 2,539.0 | 1.9% | 2,537.0 | 1.8% |
| Education | 994.1 | 1.0% | 1,715.8 | 1.6% | 2,212.0 | 1.6% | 2,255.9 | 1.6% |
| Water, environment and public utilities management | 2,070.3 | 2.2% | 1,804.0 | 1.7% | 2,101.5 | 1.5% | 2,331.0 | 1.6% |
| Hotels and catering industries | 920.7 | 1.0% | 1,138.4 | 1.1% | 1,382.0 | 1.0% | 1,355.2 | 0.9% |
| Information transmission, software and IT services | 924.7 | 1.0% | 757.9 | 0.7% | 823.0 | 0.6% | 1,087.4 | 0.8% |
| Finance | — | — | — | — | 7,514.0 | 5.5% | 5,603.5 | 3.9% |
| Others[(1)] | 2,459.0 | 2.6% | 2,333.5 | 2.1% | 2,982.1 | 2.2% | 2,786.7 | 1.8% |
| **Total corporate loans** | **95,480.1** | **100.0%** | **107,682.3** | **100.0%** | **136,673.6** | **100.0%** | **144,660.6** | **100.0%** |

*Note:*

(1) Consisted primarily of (i) agriculture, forestry, animal husbandry and fishery, (ii) resident services and other services, (iii) culture, sports and entertainment, (iv) scientific research and technical services, and geological prospecting, (v) mining, and (vi) public management and social organization.

The top five industries in terms of our aggregate corporate loan amount as of March 31, 2021 were (i) the manufacturing industry, (ii) the leasing and commercial service industry, (iii) the wholesale and retail industry, (iv) the construction industry and (v) the real estate industry. The aggregate balance of loans to customers in the top five industries amounted to RMB79,690.8 million, RMB89,973.2 million, RMB107,850.5 million and RMB116,934.7 million as of December 31, 2018, 2019 and 2020 and March 31, 2021 respectively, representing 83.4%, 83.5%, 78.9% and 80.8% of our total corporate loans as of the same date. The increases in loans to customers in the top five industries during the Track Record Period were mainly due to the overall growth in our business and our adoption of strategic policies favorable to such industries.

1 The industry classifications are in accordance with the National Economic Industry Classification system of the National Bureau of Statistics.

Our loans to corporate borrowers in the manufacturing industry represented 15.0%, 15.7%, 19.8% and 19.5% of our total corporate loans as of December 31, 2018, 2019 and 2020 and March 31, 2021, respectively. Our loans to corporate borrowers in the manufacturing industry increased by 18.3% from RMB14,325.9 million as of December 31, 2018 to RMB16,944.4 million as of December 31, 2019, which increased significantly by 60.4% to RMB27,173.6 million as of December 31, 2020. As of March 31, 2021, our loans to corporate borrowers in the manufacturing industry amounted to RMB28,240.8 million.

Our loans to corporate borrowers in the leasing and commercial service industry represented 20.5%, 21.0%, 18.1% and 19.0% of our total corporate loans as of December 31, 2018, 2019 and 2020 and March 31, 2021, respectively. Our loans to corporate borrowers in the leasing and commercial service industry increased by 15.5% from RMB19,595.6 million as of December 31, 2018 to RMB22,636.2 million as of December 31, 2019, which further increased by 9.3% to RMB24,737.3 million as of December 31, 2020. As of March 31, 2021, our loans to corporate borrowers in the leasing and commercial service industry amounted to RMB27,557.7 million.

Our loans to corporate borrowers in the wholesale and retail industry represented 21.4%, 21.7%, 17.8% and 18.1% of our total corporate loans as of December 31, 2018, 2019 and 2020 and March 31, 2021, respectively. Our loans to corporate borrowers in the wholesale and retail industry increased by 14.1% from RMB20,452.8 million as of December 31, 2018 to RMB23,342.2 million as of December 31, 2019, and increased by 4.0% to RMB24,274.5 million as of December 31, 2020. As of March 31, 2021, our loans to corporate borrowers in the wholesale and retail industry amounted to RMB26,192.4 million.

Our loans to corporate borrowers in the construction industry represented 17.7%, 16.5%, 15.3% and 15.4% of our total corporate loans as of December 31, 2018, 2019 and 2020 and March 31, 2021, respectively. Our loans to corporate borrowers in the construction industry increased by 5.2% from RMB16,908.8 million as of December 31, 2018 to RMB17,791.3 million as of December 31, 2019, which further increased by 17.3% to RMB20,860.8 million as of December 31, 2020. As of March 31, 2021, our loans to corporate borrowers in the construction industry amounted to RMB22,276.2 million.

Our loans to corporate borrowers in the real estate industry represented 8.8%, 8.6%, 7.9% and 8.8% of our total corporate loans as of December 31, 2018, 2019 and 2020 and March 31, 2021, respectively. Our loans to corporate borrowers in the real estate industry increased by 10.1% from RMB8,407.7 million as of December 31, 2018 to RMB9,259.1 million as of December 31, 2019, which further increased by 16.7% to RMB10,804.3 million as of December 31, 2020. As of March 31, 2021, our loans to corporate borrowers in the real estate industry amounted to RMB12,667.6 million.

Distribution of Corporate Loans to Ten Key Industries

| | As of December 31, | | | | | | As of March 31, | |
|---|---|---|---|---|---|---|---|---|
| | 2018 | | 2019 | | 2020 | | 2021 | |
| | Amount | % of total | Amount | % of total | Amount | % of total | Amount | % of total |
| | *(in millions of RMB, except percentages)* | | | | | | | |
| Education | 1,569.9 | 6.3% | 2,349.5 | 7.9% | 2,736.7 | 6.4% | 2,698.5 | 5.7% |
| Medical and pharmaceutical | 2,447.1 | 9.8% | 4,473.2 | 15.1% | 5,099.5 | 12.1% | 5,008.8 | 10.6% |
| Environmental protection | 3,750.8 | 15.0% | 3,103.1 | 10.4% | 4,350.1 | 10.2% | 4,980.1 | 10.5% |
| Intelligent city | 8,390.8 | 33.6% | 8,999.5 | 30.3% | 12,156.7 | 28.6% | 13,933.8 | 29.3% |
| Industrial park | 2,010.9 | 8.1% | 4,114.5 | 13.9% | 9,493.5 | 22.3% | 11,173.0 | 23.5% |
| High-end manufacturing | 1,390.8 | 5.6% | 1,252.6 | 4.2% | 2,180.7 | 5.1% | 2,620.9 | 5.5% |
| New generation information technology | 2,058.5 | 8.2% | 1,797.8 | 6.1% | 2,263.2 | 5.3% | 2,596.5 | 5.5% |
| Mould | 251.3 | 1.0% | 284.0 | 0.9% | 303.4 | 0.7% | 301.8 | 0.6% |
| Furniture | 1,612.2 | 6.5% | 1,451.9 | 4.9% | 1,937.3 | 4.6% | 2,241.1 | 4.7% |
| Food | 1,469.5 | 5.9% | 1,860.5 | 6.3% | 2,015.7 | 4.7% | 1,964.6 | 4.1% |
| **Total** | **24,951.7** | **100.0%** | **29,686.4** | **100.0%** | **42,536.9** | **100.0%** | **47,519.1** | **100.0%** |

Since 2017, we identified ten key industries and offered seven tailor-made comprehensive financial service plans for these industries, namely, “Green Financing (綠融通)”, “Campus Financing (校融通)”, “Bank-Hospital Financing (銀醫通)”, “Smart Financing (智融通)”, “Park Financing (園融通)”, “Bay Area Financing (灣融通)” and “City Financing (城新通)”. As of December 31, 2018, 2019 and 2020 and March 31, 2021, the total number of customers of our Bank in the ten key industries were approximately 116,900, 122,900, 125,800 and 126,400, respectively. As of December 31, 2018, 2019 and 2020, the balance of our corporate loans to enterprises in the ten key industries were approximately RMB24,951.7 million, RMB29,686.4 million and RMB42,536.9 million, respectively, representing a CAGR of 30.6%. As of March 31, 2021, the balance of our corporate loans to enterprises in the ten key industries was approximately RMB47,519.1 million.

Distribution of Corporate Loans by Principal Amount

The following table sets forth distribution of our corporate loan amount to borrowers by principal amount as of the dates indicated.

| | As of December 31, | | | | | | As of March 31, | |
|---|---|---|---|---|---|---|---|---|
| | 2018 | | 2019 | | 2020 | | 2021 | |
| | Amount | % of total | Amount | % of total | Amount | % of total | Amount | % of total |
| | *(in millions of RMB, except percentages)* | | | | | | | |
| Over RMB500 million (inclusive) | 4,306.4 | 4.5% | 6,081.5 | 5.6% | 24,874.5 | 18.2% | 24,854.8 | 17.2% |
| Between RMB100 million and RMB500 million | 47,767.1 | 50.0% | 54,788.7 | 50.9% | 59,504.5 | 43.5% | 65,331.0 | 45.2% |
| Between RMB50 million and RMB100 million (inclusive) | 19,490.3 | 20.4% | 20,678.5 | 19.2% | 22,415.3 | 16.4% | 25,105.6 | 17.4% |
| Between RMB10 million and RMB50 million (inclusive) | 17,186.3 | 18.0% | 18,438.5 | 17.1% | 20,310.7 | 14.9% | 21,094.5 | 14.6% |
| Between RMB5 million and RMB10 million (inclusive) | 3,286.2 | 3.4% | 3,959.9 | 3.7% | 4,863.7 | 3.6% | 4,723.4 | 3.2% |
| Up to RMB5 million (inclusive) | 3,443.8 | 3.7% | 3,735.2 | 3.5% | 4,704.9 | 3.4% | 3,551.3 | 2.4% |
| **Total corporate loans** | **95,480.1** | **100.0%** | **107,682.3** | **100.0%** | **136,673.6** | **100.0%** | **144,660.6** | **100.0%** |

Our aggregate loan amount to corporate borrowers for loans with principal amounts between RMB100 million and RMB500 million was the largest component in terms of percentages of our total corporate loan amount, which increased from 50.0% as of December 31, 2018 to 50.9% as of December 31, 2019, and decreased to 43.5% as of December 31, 2020. As of March 31, 2021, the aggregate loan amount to corporate borrowers for loans with principal amounts between RMB100 million and RMB500 million in terms of percentages of our total corporate loan amount increased to 45.2%. Such fluctuations in percentage were primarily due to the increases in aggregate loan amount we granted to projects undertook by medium to large enterprises that required large principal amount, such as infrastructure construction, urban improvement, factory construction and upgrade. In addition, we increased the support to existing customers with good credit history.

Distribution of Corporate Loans by Size of Corporate Borrowers

The following table sets forth distribution of our corporate loans by size of borrowers as of the dates indicated.

| | As of December 31, | | | | | | | | | As of March 31, | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2018 | | | 2019 | | | 2020 | | | 2021 | | |
| | Amount | % of total | NPL ratio | Amount | % of total | NPL ratio | Amount | % of total | NPL ratio | Amount | % of total | NPL ratio |
| | *(in millions of RMB, except percentages)* | | | | | | | | | | | |
| SMEs[(1)] | 62,969.9 | 65.9% | 2.35% | 68,097.9 | 63.3% | 1.75% | 82,515.2 | 60.4% | 1.10% | 89,767.9 | 62.0% | 1.08% |
| Medium enterprises[(1)] | 23,281.4 | 24.4% | 1.24% | 28,277.8 | 26.3% | 1.36% | 37,349.4 | 27.3% | 1.00% | 37,696.0 | 26.1% | 0.84% |
| Large enterprises[(1)] | 8,392.2 | 8.8% | 0.18% | 10,605.0 | 9.8% | 0.14% | 16,156.6 | 11.8% | 0.00% | 16,597.3 | 11.5% | 0.00% |
| Others[(2)] | 836.6 | 0.9% | 0.00% | 701.6 | 0.6% | 0.00% | 652.4 | 0.5% | 0.00% | 599.4 | 0.4% | 0.20% |
| **Total corporate loans** | **95,480.1** | **100.0%** | **1.87%** | **107,682.3** | **100.0%** | **1.52%** | **136,673.6** | **100.0%** | **0.94%** | **144,660.6** | **100.0%** | **0.89%** |

*Notes:*

(1) The classification criteria for large, medium, SMEs are set out by the 2017 Measures for Classification.

(2) Consisted primarily of public institutions, such as hospitals and schools.

Our loans to SMEs increased by 8.1% from RMB62,969.9 million as of December 31, 2018 to RMB68,097.9 million as of December 31, 2019, which further increased by 21.2% to RMB82,515.2 million as of December 31, 2020. As of March 31, 2021, our loans to SMEs amounted to RMB89,767.9 million. Such increases in our loans to SMEs were primarily due to our efforts to support local SMEs by meeting their increasing capital needs.

Our loans to medium to large enterprises increased by 22.8% from RMB31,673.6 million as of December 31, 2018 to RMB38,882.8 million as of December 31, 2019, which further increased by 37.6% to RMB53,506.0 million as of December 31, 2020. As of March 31, 2021, our loans to medium to large enterprises amounted to RMB54,293.3 million. Such increases in our loans to medium to large enterprises were primarily due to the increases in aggregate loan amount we granted to projects undertaken by medium to large enterprises that required large principal amount, such as infrastructure construction, urban improvement, factory construction and upgrade, local key projects and advanced manufacturing projects.

During the Track Record Period, despite certain adverse impact of the outbreak of COVID-19 on the global economy and our loan portfolio and asset quality, the NPL ratios decreased for our corporate loans across almost all sizes of borrowers, which was primarily due to (i) the prompt and effective epidemic control in Dongguan and series of supporting measures launched by the local government that supported and improved the business environment of micro-, small- and medium-sized enterprises in Dongguan, which provides a sound foundation for our loan portfolio and asset quality; and (ii) our efforts on maintaining sufficient collaterals in the process of expanding our credit business to ensure that credit risks can be effectively mitigated. As of March 31, 2021, the balances of loans collateralized, pledged or guaranteed amounted to RMB241,619.7 million, representing 87.6% of our total loans and advances to customers as of the same date.

*Personal Loans*

As of December 31, 2018, 2019 and 2020 and March 31, 2021, our personal loans represented 30.1%, 38.9%, 37.5% and 38.1% of our loans and advances to customers, respectively.

Our personal loans increased by 61.6% from RMB49,541.7 million as of December 31, 2018 to RMB80,048.3 million as of December 31, 2019, which further increased by 22.4% to RMB98,015.9 million as of December 31, 2020. As of March 31, 2021, our personal loans amounted to RMB105,073.8 million. The increase in our personal loans was primarily attributable to the growing market demand, which was in turn driven by Dongguan's urbanization and economic transformation. Increase in our personal loans was also a result of our strategic focus on personal consumption loans and online banking channels.

Distribution of Personal Loans by Product Type

The table below sets forth the distribution of our personal loans by product type as of the dates indicated.

| | As of December 31, | | | | | | As of March 31, | |
|---|---|---|---|---|---|---|---|---|
| | 2018 | | 2019 | | 2020 | | 2021 | |
| | Amount | % of total | Amount | % of total | Amount | % of total | Amount | % of total |
| | *(in millions of RMB, except percentages)* | | | | | | | |
| Residential mortgage loans | 23,568.3 | 47.6% | 32,441.2 | 40.5% | 37,665.4 | 38.4% | 39,788.3 | 37.9% |
| Personal consumption loans | 5,336.2 | 10.8% | 19,089.8 | 23.9% | 26,517.0 | 27.1% | 30,080.3 | 28.6% |
| Personal business loans | 9,766.5 | 19.7% | 18,001.0 | 22.5% | 25,609.6 | 26.1% | 27,604.0 | 26.3% |
| Credit card balances | 10,870.7 | 21.9% | 10,516.3 | 13.1% | 8,223.9 | 8.4% | 7,601.2 | 7.2% |
| **Total personal loans** | **49,541.7** | **100.0%** | **80,048.3** | **100.0%** | **98,015.9** | **100.0%** | **105,073.8** | **100.0%** |

Residential mortgage loans represented 47.6%, 40.5%, 38.4% and 37.9% of our personal loans as of December 31, 2018, 2019 and 2020 and March 31, 2021, respectively. The decreases in the percentage were due to our efforts to diversify products and services to individual customers. Our residential mortgage loans increased by 37.6% from RMB23,568.3 million as of December 31, 2018 to RMB32,441.2 million as of December 31, 2019, primarily due to the relaxation of the relevant governmental policies on loans for residential properties in the second half of 2018 and our increased allocation of resources to residential mortgage loans. Our residential mortgage loans further increased by 16.1% to RMB37,665.4 million as of December 31, 2020. As of March 31, 2021, our residential mortgage loans amounted to RMB39,788.3 million. Such increase in our residential mortgage loans was primarily a result of the increased amount of individual residential mortgage loan, which is in line with the market price of properties in Dongguan, and the decrease in growth rate of our residential mortgage loans is consistent with our policy for granting personal residential mortgage loans under the principle that "houses are for living in, not for speculation (房住不炒)".

Personal consumption loans represented 10.8%, 23.9%, 27.1% and 28.6% of our personal loans as of December 31, 2018, 2019 and 2020 and March 31, 2021, respectively. Our personal consumption loans increased significantly by 257.7% from RMB5,336.2 million as of December 31, 2018 to RMB19,089.8 million as of December 31, 2019, primarily due to our efforts to promote personal consumption loans and online banking channels and the expansion in the portfolio of personal consumption loan products we offered to individual customers. Our personal consumption loans further increased by 38.9% to RMB26,517.0 million as of December 31, 2020 and amounted to RMB30,080.3 million as of March 31, 2021, primarily resulted from our increased allocation of resources to personal consumption loans and upgrade in our personal consumption loans products such as "Good Salary Loan (好薪貸)", which was launched exclusively to our payroll customers who maintain a good credit history with our Bank and enables to borrow a maximum amount of RMB1.0 million with a term of up to ten years.

Personal business loans represented 19.7%, 22.5%, 26.1% and 26.3% of our personal loans as of December 31, 2018, 2019 and 2020 and March 31, 2021, respectively. Our personal business loans increased by 84.3% from RMB9,766.5 million as of December 31, 2018 to RMB18,001.0 million as of December 31, 2019, and further increased by 42.3% to RMB25,609.6 million as of December 31, 2020. As of March 31, 2021, our personal business loans amounted to RMB27,604.0 million. The continuous increase was in line with the general market condition in Dongguan and our overall business growth.

Credit card balances represented 21.9%, 13.1%, 8.4% and 7.2% of our personal loans as of December 31, 2018, 2019 and 2020 and March 31, 2021, respectively. Our credit card balances as of December 31, 2019 amounted to RMB10,516.3 million, representing a slight decrease of 3.3% when compared with that of December 31, 2018, which was further decreased by 21.8% to RMB8,223.9 million as of December 31, 2020. Our credit card balances decreased by 7.6% to RMB7,601.2 million as of March 31, 2021. The continuous decrease was primarily due to our more proactive risk management strategy.

Distribution of Personal Loans by Principal Amount

The following table sets forth the distribution of our outstanding personal loans by principal amount as of the dates indicated.

| | As of December 31, | | | | | | As of March 31, | |
|---|---|---|---|---|---|---|---|---|
| | 2018 | | 2019 | | 2020 | | 2021 | |
| | Amount | % of total | Amount | % of total | Amount | % of total | Amount | % of total |
| | *(in millions of RMB, except percentages)* | | | | | | | |
| Over RMB5,000,000 | 4,743.9 | 9.6% | 6,014.8 | 7.5% | 9,234.9 | 9.4% | 10,127.1 | 9.6% |
| Between RMB500,000 and RMB5,000,000 (inclusive) | 23,690.0 | 47.8% | 37,870.0 | 47.3% | 50,870.0 | 51.9% | 55,770.6 | 53.1% |
| Between RMB250,000 and RMB500,000 (inclusive) | 5,801.2 | 11.7% | 10,161.6 | 12.7% | 9,613.4 | 9.8% | 11,325.7 | 10.8% |
| Between RMB100,000 and RMB250,000 (inclusive) | 2,503.6 | 5.1% | 7,259.0 | 9.1% | 7,965.3 | 8.1% | 9,254.3 | 8.8% |
| Up to RMB100,000 (inclusive) | 12,803.0 | 25.8% | 18,742.9 | 23.4% | 20,332.3 | 20.8% | 18,596.1 | 17.7% |
| **Total personal loans** | **49,541.7** | **100.0%** | **80,048.3** | **100.0%** | **98,015.9** | **100.0%** | **105,073.8** | **100.0%** |

Our aggregate loan amount to individual borrowers with principal amounts between RMB0.5 million and RMB5.0 million was the largest component of our personal loans in terms of percentages of our total personal loan amount, percentage of which to the total personal loan was relatively stable as of December 31, 2018 when compared with that of December 31, 2019, and increased to 51.9% as of December 31, 2020, primarily due to the relatively rapid growth of residential mortgage loans. As of March 31, 2021, our aggregate loan amount to individual borrowers with principal amounts between RMB0.5 million and RMB5.0 million in terms of percentages of our total personal loan amount increased to 53.1%, reflecting the increase in our residential mortgage loans with each of the amount largely between RMB0.5 million to RMB5.0 million. In terms of its percentage to our total personal loan amount, our aggregate loan amount to individual borrowers with principal amounts up to RMB0.1 million decreased from 25.8% as of December 31, 2018 to 23.4% as of December 31, 2019, primarily due to the consolidation of Zhanjiang RCB in 2019, whose percentage of personal loans with principal amounts up to RMB0.1 million was relatively low. Such percentage further decreased to 20.8% as of December 31, 2020, primarily due to the relatively rapid growth of loans in other amounts range, resulting in the increase of proportion. As of March 31, 2021, our aggregate loan amount to individual borrowers with principal amounts up to RMB0.1 million in terms of percentages of our total personal loan amount decreased to 17.7%, primarily due to the adjustment in online personal loans pursuant to our business development needs.

*Discounted Bills*

During the Track Record Period, our discounted bills consisted of bank acceptance bills only. As of March 31, 2021, our discounted bills slightly decreased by 2.8% from RMB26,761.1 million as of December 31, 2020 to RMB26,016.2 million, primarily due to maturity of certain discounted bills. Our discounted bills increased by 47.9% from RMB18,096.2 million as of December 31, 2019 to RMB26,761.1 million as of December 31, 2020, due to factors including relatively lower market interest rates under the COVID-19 economic recovery policy and higher liquidity of discounted bills. Our discounted bills decreased by 6.4% from RMB19,331.0 million as of December 31, 2018 to RMB18,096.2 million as of December 31, 2019, primarily due to our increased allocation of resources to loans to customers and accordingly decreased in resources allocated to discounted bills.

***Distribution of Loans to Customers by Geographical Region***

We classified loans geographically based on the location of our branches that originated the loans. Our branches generally grant loans to local borrowers. The following table sets forth the distribution of our loans to customers by geographical region as of the dates indicated.

| | As of December 31, | | | | | | As of March 31, | |
|---|---|---|---|---|---|---|---|---|
| | 2018 | | 2019 | | 2020 | | 2021 | |
| | Amount | % of total | Amount | % of total | Amount | % of total | Amount | % of total |
| | *(in millions of RMB, except percentages)* | | | | | | | |
| Dongguan | 155,563.2 | 94.7% | 169,039.0 | 82.1% | 214,171.5 | 81.9% | 220,674.9 | 80.0% |
| Other regions(1) | 8,789.6 | 5.3% | 36,787.8 | 17.9% | 47,279.1 | 18.1% | 55,075.7 | 20.0% |
| **Total loans to customers** | **164,352.8** | **100.0%** | **205,826.8** | **100.0%** | **261,450.6** | **100.0%** | **275,750.6** | **100.0%** |

*Note:*

(1) For details on the distribution of our branches, outlets and county banks, please see "Business — Distribution Network".

We operated our loan business primarily in Dongguan. Loans originated in Dongguan represented 94.7%, 82.1%, 81.9% and 80.0% of our total loans to customers as of December 31, 2018, 2019 and 2020 and March 31, 2021, respectively. The percentage of loans to customers originated in Dongguan decreased from 94.7% as of December 31, 2018 to 82.1% as of December 31, 2019, primarily due to the expansion of our online loans with customers located in different regions, which further decreased to 81.9% and 80.0% as of December 31, 2020 and March 31, 2021, respectively, primarily due to the better development of corporate loans of Zhanjiang RCB and bills business of Chaoyang RCB, which led to the increase in the percentage of loans outside Dongguan.

***Distribution of Loans to Customers by Collateral***

The following table sets forth the distribution of our loans to customers by type of collateral as of the dates indicated. The increase in these loans primarily reflected the overall growth in our loan portfolio.

| | As of December 31, | | | | | | As of March 31, | |
|---|---|---|---|---|---|---|---|---|
| | 2018 | | 2019 | | 2020 | | 2021 | |
| | Amount | % of total | Amount | % of total | Amount | % of total | Amount | % of total |
| | *(in millions of RMB, except percentages)* | | | | | | | |
| Pledged loans(1)(2) | 30,769.2 | 18.7% | 28,847.7 | 14.0% | 39,107.9 | 15.0% | 39,371.2 | 14.3% |
| Collateralized loans(1)(3) | 88,589.1 | 53.9% | 113,050.8 | 54.9% | 134,641.7 | 51.5% | 144,891.5 | 52.5% |
| Guaranteed loans | 31,566.8 | 19.2% | 35,717.2 | 17.4% | 54,441.7 | 20.8% | 57,357.0 | 20.8% |
| Unsecured loans | 13,427.7 | 8.2% | 28,211.1 | 13.7% | 33,259.3 | 12.7% | 34,130.9 | 12.4% |
| **Total** | **164,352.8** | **100.0%** | **205,826.8** | **100.0%** | **261,450.6** | **100.0%** | **275,750.6** | **100.0%** |

*Notes:*

(1) Represented the total amount of loans wholly or partially secured by collateral in each category. If a loan is secured by more than one form of security interest, the classification is based on the primary form of security interest.

(2) Represented security interest in the form of intangible assets or monetary assets, such as chattels, certificates of deposit, financial instruments, intellectual properties and interests in future cash flows, by taking possession of, or registering as beneficiary of, such assets.

(3) Represented security interest in tangible assets other than monetary assets, such as buildings and fixtures, land use rights, machines, equipment and vehicles, without taking possession.

During the Track Record Period, a substantial amount of our loans to customers were secured by pledges, collateral or guarantees. As of December 31, 2018, 2019 and 2020 and March 31, 2021, our loans to customer secured by pledges, collateral or guarantees amounted to RMB150,925.1 million, RMB177,615.7 million, RMB228,191.3 million and RMB241,619.7 million, respectively, representing 91.8%, 86.3%, 87.3% and 87.6% of our total loans to customers as of the same dates. The high percentage of these loans in our loan portfolio was a result of our prudent risk management policies.

Our loan-to-value ratio refers to an indicator that compares the size of loans to the value of the collaterals or pledges securing the loans. As of December 31, 2018, 2019 and 2020 and March 31, 2021, the loan-to-value ratio for our loans secured by collaterals was 54.0%, 51.3%, 52.8% and 52.4%, respectively. As of the same dates, the loan-to-value ratio for our loans secured by pledges was 60.9%, 59.8%, 64.7% and 66.1%, respectively. Our Bank requires that the value of collaterals shall be sufficient to cover the principal and interest of the corresponding loan.

Our unsecured loans were RMB13,427.7 million, RMB28,211.1 million, RMB33,259.3 million and RMB34,130.9 million as of December 31, 2018, 2019 and 2020 and March 31, 2021, respectively, representing 8.2%, 13.7%, 12.7% and 12.4% of our total loans to customers as of the same dates, respectively. The percentage of unsecured loans to our total loans to customers remained relatively stable during the Track Record Period, and the increases of unsecured loans in percentage as of December 31, 2019 were primarily due our strategic focus on certain retail banking products and services, including online joint granted loans and SME loans. According to our policies, high quality customers with comparatively high credit ratings can access various types of our loan products, including unsecured loans. For details, please see "Risk Management — Credit Risk Management".

***Borrower Concentration***

In accordance with applicable PRC banking laws and regulations, our loan balance to any single borrower is subject to a lending limit of 10% of our net capital. Please see "Supervision and Regulation — Other Operational and Risk Management Ratios". The following table sets forth our loan amount to our ten largest single borrowers (all classified as normal) as of the date indicated.

| | As of March 31, 2021 | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Industry | Background | Operational scale | Amount | Type of business | % of total loans | % of net capital[1] | Amount of off-balance-sheet commitments / guarantees | Underlying securities | Value of underlying securities | Coverage ratio (times) | Impairment |
| | (in millions of RMB, except percentages) | | | | | | | | | | | |
| Borrower A[1] | Leasing and commercial services | State-controlled | Small | 2,999.8 | Loans | 1.1% | 6.5% | 2,024.0 | Guarantee | — | — | 37.0 |
| Borrower B | Construction | Private-controlled | Large | 1,504.1 | Loans | 0.5% | 3.3% | 5,319.5 | Collaterals, guarantee and pledges | 5,891.3 | 391.7% | 27.2 |
| Borrower C | Leasing and commercial services | State-controlled | Small | 1,300.0 | Loans | 0.5% | 2.8% | — | Guarantee | — | — | 23.2 |
| Borrower D | Construction | State-controlled | Large | 1,024.0 | Loans | 0.4% | 2.2% | — | Guarantee | — | — | 12.6 |
| Borrower E | Construction | State-controlled | Large | 1,000.0 | Loans | 0.4% | 2.2% | 236.0 | Guarantee | — | — | 12.3 |
| Borrower F | Construction | State-controlled | Medium | 958.2 | Loans | 0.3% | 2.1% | — | Guarantee | — | — | 17.0 |
| Borrower G | Leasing and commercial services | Private-controlled | Large | 928.0 | Loans | 0.3% | 2.0% | 1,763.0 | Pledges, guarantee and custody | 4,550.3 | 502.2% | 11.8 |
| Borrower H | Real estate | Private-controlled | Micro | 887.0 | Loans | 0.3% | 1.9% | — | Guarantee and pledges | 462.6 | 52.2% | 11.9 |
| Borrower I | Wholesale and retail | Private-controlled | Large | 813.2 | Loans | 0.3% | 1.8% | — | Collaterals, guarantee and pledges | 1,790.0 | 221.4% | 11.2 |
| Borrower J | Wholesale and retail | Private-controlled | Large | 798.5 | Loans | 0.3% | 1.7% | 2,582.1 | Collaterals and guarantee | 1,646.4 | 206.2% | 15.9 |
| **Total** | | | | **12,212.8** | | **4.4%** | **26.5%** | **11,924.6** | | **14,340.6** | | **180.1** |

*Note:*

(1) Calculated in accordance with the requirements of the Capital Administration Measures and based on our financial statements prepared in accordance with PRC GAAP. For a calculation of our net capital as of March 31, 2021, please see "Financial Information — Capital Resources — Capital Adequacy".

In accordance with applicable PRC banking guidelines, our aggregate loan balance to any single group borrower is subject to a credit limit of 15% of our net capital. The following table sets forth our credit limit to our ten largest group borrowers (all classified as normal) as of the date indicated.

| | As of March 31, 2021 | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Industry | Background | Operational scale | Credit limit | Type of business | % of total loans | % of net capital[(1)] | Amount of off-balance-sheet commitments / guarantees | Underlying securities | Value of underlying securities | Coverage ratio (times) | Impairment |
| | (in millions of RMB, except percentages) | | | | | | | | | | | |
| Group A | Construction | State-controlled | Large | 5,724.0 | Loans | 2.1% | 12.4% | 2,260.0 | Guarantee | — | — | 74.3 |
| Group B | Wholesale and retail | Private-controlled | Medium | 4,420.8 | Loans | 1.6% | 9.6% | 14,590.5 | Guarantee, pledges and collaterals | 8,254.7 | 232.0% | 65.8 |
| Group C | Construction | Private-controlled | Large | 3,100.1 | Loans and letter of guarantee | 1.1% | 6.7% | 19,641.7 | Guarantee, pledges and collaterals | 11,446.9 | 377.9% | 47.2 |
| Group D | Leasing and commercial services | Private-controlled | Medium | 2,570.3 | Loans and letter of guarantee | 0.9% | 5.6% | 8,245.3 | Guarantee, pledges and collaterals | 7,811.7 | 585.4% | 35.9 |
| Group E | Leasing and commercial services | Private-controlled | Medium | 2,286.4 | Loans | 0.8% | 5.0% | 5,477.5 | Guarantee, pledges and collaterals | 3,766.6 | 130.0% | 38.5 |
| Group F | Leasing and commercial services | Private-controlled | Small | 2,210.6 | Loans and letter of guarantee | 0.8% | 4.8% | 13,128.7 | Guarantee, pledges and collaterals | 7,135.6 | 334.3% | 30.8 |
| Group G | Leasing and commercial services | State-controlled | Medium | 2,045.7 | Loans | 0.7% | 4.4% | 0.2 | Credit and guarantee | — | — | 33.2 |
| Group H | Leasing and commercial services | Collective-owned | Small | 1,731.2 | Loans | 0.6% | 3.8% | 2,242.5 | Guarantee | — | — | 26.8 |
| Group I | Leasing and commercial services | Private-controlled | Small | 1,595.4 | Loans | 0.6% | 3.5% | 8,340.0 | Guarantee, pledges and collaterals | 18,900.6 | 1,194.0% | 24.9 |
| Group J | Wholesale and retail | Private-controlled | Medium | 1,589.4 | Loans | 0.6% | 3.4% | 3,212.6 | Guarantee | 3,606.1 | 215.4% | 24.6 |
| **Total** | | | | **27,273.9** | | **9.8%** | **59.2%** | **77,139.0** | | **60,922.2** | | **402.0** |

*Note:*

(1) Calculated in accordance with the requirements of the Capital Administration Measures and based on our financial statements prepared in accordance with PRC GAAP. For a calculation of our net capital as of March 31, 2021, please see "Financial Information — Capital Resources — Capital Adequacy".

***Maturity Profile of Loan Portfolio***

The following table sets forth our loan products by remaining maturity as of the date indicated.

| | As of March 31, 2021 | | | | | |
|---|---|---|---|---|---|---|
| | Due in 3 months or less | Due in over 3 months up to 12 months | Due in 1 to 5 years | Due in more than 5 years | Overdue(1) | Total |
| | (in millions of RMB) | | | | | |
| **Corporate loans** | | | | | | |
| Working capital loans | 11,572.3 | 31,696.6 | 17,015.2 | 2,053.3 | 1,120.9 | 63,458.3 |
| Fixed asset loans | 1,131.2 | 4,000.3 | 32,500.3 | 37,810.5 | 478.4 | 75,920.7 |
| Others(2) | 845.9 | 2,989.1 | 70.8 | 1,367.2 | 8.6 | 5,281.6 |
| **Subtotal** | **13,549.4** | **38,686.0** | **49,586.3** | **41,231.0** | **1,607.9** | **144,660.6** |
| **Personal loans** | | | | | | |
| Personal business loans | 1,765.8 | 7,164.7 | 12,060.9 | 6,082.0 | 530.6 | 27,604.0 |
| Residential mortgage loans | 2.6 | 18.8 | 845.8 | 38,645.7 | 275.4 | 39,788.3 |
| Credit card balances(3) | 2,624.0 | 548.6 | 2,856.7 | 1,414.2 | 157.7 | 7,601.2 |
| Personal consumption loans | 1,112.1 | 6,786.5 | 15,103.3 | 6,673.3 | 405.1 | 30,080.3 |
| **Subtotal** | **5,504.5** | **14,518.6** | **30,866.7** | **52,815.2** | **1,368.8** | **105,073.8** |
| **Discounted bills** | | | | | | |
| Bank acceptance bill | 11,461.6 | 14,554.6 | — | — | — | 26,016.2 |
| **Subtotal** | **11,461.6** | **14,554.6** | **—** | **—** | **—** | **26,016.2** |
| **Total** | **30,515.5** | **67,759.2** | **80,453.0** | **94,046.2** | **2,976.7** | **275,750.6** |

*Notes:*

(1) Included loans on which principal and interest are overdue. For loans that were repayable in installments, if any portion of the loan was overdue, the total amount of that loan was classified as overdue.

(2) Consisted primarily of mortgage loans on business premises and mechanical equipment.

(3) Included credit card loans that were repayable in installments. The maturity profile is the carrying amount as set forth by remaining contractual maturities as of March 31, 2021.

As of March 31, 2021, our corporate loans with remaining maturities of up to one year amounted to RMB52,235.4 million, representing 36.1% of our total corporate loans, consisting primarily of working capital loans with remaining maturities of three to 12 months. Our corporate loans with remaining maturities of more than one year amounted to RMB90,817.3 million as of the same date, representing 62.8% of our total corporate loans, consisting primarily of fixed asset loans with remaining maturities of more than one year. Our personal loans with remaining maturity of up to five years amounted to RMB50,889.8 million as of March 31, 2021, representing 48.4% of our total personal loans, consisting mainly of personal business loans and personal consumption loans with remaining maturities between one to five years while those of our personal loans with remaining maturities of more than five years amounted to RMB52,815.2 million as of the same date, representing 50.3% of our total personal loans, consisting primarily of residential mortgage loans.

***Loan Interest Rate Profile***

In recent years, PBoC has implemented a series of initiatives to gradually liberalize interest rates and establish a market-based interest rate regime. On July 20, 2013, PBoC removed the floor rates for RMB-denominated loans (except for interest rates on residential mortgage loans) and allowed commercial banks in China to set interest rates based on commercial considerations.

Interest rates on residential mortgage loans have been set at no less than 70% of PBoC benchmark lending rate since October 27, 2008. Interest rates on residential mortgage loans to second-home buyers are required to be no less than 110% of PBoC benchmark lending rate since April 17, 2010. On August 25, 2019, PBoC issued an announcement (PBoC Notice (2019) No.16) regarding the interest rate for newly extended mortgage loans, which provides that since October 8, 2019, newly extended mortgage loans shall be priced by adding basis points to the latest monthly loan prime rate (the "**LPR**") of corresponding maturity; the interest rate of residential mortgage loans for the first residential property shall not be lower than the LPR of corresponding maturity, and that of the second residential property shall not be lower than the LPR of corresponding maturity plus 60 basis points. Further, the interest rates of the loan for commercial properties shall not be lower than the LPRs of corresponding maturities plus 60 basis points, and no adjustments shall be made to the interest rates of housing provident fund for residential properties for the time being. The basis points added should conform to the national and local housing credit policy requirements, reflect the loan risk profile, and remain fixed during the contract period. For details, please see "Supervision and Regulation — Pricing of Products and Services".

**Asset Quality of Our Loan Portfolio**

We measured and monitored the asset quality of our loans to customers through our loan classification system. Pursuant to the Guidelines on Risk-based Classification of Loans (《貸款風險分類指引》) published by CBRC on July 3, 2007 (the "**CBRC Guidelines**"), the principal analysis in classifying a loan is the assessment of the repayment ability of the borrower, the intention of the borrower to repay and the assessment of the pledges and collaterals. We classified our loans using a five-category loan classification system, which complies with the CBRC Guidelines. Please see "Supervision and Regulation — Loan Classification, Allowances and Write-Offs — Loan Classification".

Since early 2020, to counter the adverse effect on the economy caused by the COVID-19 pandemic, China's central and local governments have promulgated a series of supporting policies to ease burdens, including, among other things, encouraging banks and financial institutions to enhance their credit support to affected enterprises and individuals. For details, please see "Summary — Recent Developments", "Financial Information — No Material Adverse Change" and "Risk Factors — Risks Relating to our Business — The recent outbreak of the contagious COVID-19 in the PRC and worldwide may have an adverse effect on our business, financial condition and results of operations".

***Loan Classification Criteria***

In determining the classification of our loan portfolio, we applied a series of criteria that were derived from the CBRC Guidelines. These criteria were designed to assess the likelihood of repayment by the borrower and the collectability of principal and interest on the loan.

*Corporate Loans*

Our corporate loan classification criteria focus on a number of factors, to the extent applicable, including (i) the borrower's ability to repay the loan, based on such factors as the borrower's cash flows, financial condition, profitability and other non-financial factors affecting the borrower's repayment ability; (ii) the borrower's repayment history; (iii) the borrower's willingness to repay; (iv) the profitability of the project financed by our loans; (v) the net realizable value of any collateral and the prospect for support from any guarantor; and (vi) the enforceability of our claims. The key factors for each loan classification are listed below.

This is not intended to be an exhaustive list of all factors taken into account in classifying our loans. Please see "Risk Management — Credit Risk Management — Credit Risk Management of Corporate Loans".

***Normal.*** Loans are classified as normal only if the borrower can honor the terms of its loans and there is no sufficient reason to doubt its ability to repay principal and interest in full on a timely basis.

- the borrower pays the principal and interest under the contract;
- the borrower's operations and business are stable;
- the borrower has a good credit history in our Bank;
- the borrower's cash flows from the ordinary course of business are stable and sufficient to service the loan; or
- the borrower has strong financing ability and is in a business with good prospect.

***Special Mention***. Loans should be classified as special mention if the borrower is able to service its loans with its business revenues and, when necessary, through foreclosure on collateral, although repayment may be adversely affected by specific factors, including:

- there are adverse changes on certain key financial indicators of the borrower, such as decreases in cash flow and increases in debts to assets ratio; or such financial indicators are clearly lower than the industry level;
- loans extension, or past due for a certain period, or such extended loans need to be repaid by other financing methods;
- there have been material changes in the borrower's substantial shareholders, affiliated entities, or parent companies or subsidiaries that may affect the borrower's repayment ability;
- there have been material changes in the borrower's senior management that may impact the borrower's repayment ability;
- our loan document is incomplete and the missing documents may affect our ability to enforce collectability of the loans;
- the borrower has used the loan proceeds for a purpose inconsistent with the intended use of the loan proceeds; or
- there have been adverse changes in the macro-economic environment, industry, market, or laws and regulations that may adversely affect the borrower's repayment ability.

***Substandard***. Loans should be classified as substandard if the borrower's ability to service its loans is in question as it cannot rely entirely on normal business revenues to repay the principal and interest, and losses may ensue even when collateral or guarantees are invoked. Loans are generally classified as substandard if any of the following circumstances arises:

- the principal or any interest payments are overdue for over 90 days;
- the loans require restructuring through amendments to repayment terms as a result of the borrower's deteriorated financial condition or inability to pay;
- the borrower is disposing of or selling off major fixed assets used for production or business operation; or
- the borrower has encountered continuous financial difficulties, or the underlying project has been significantly delayed resulting in a shortage of cash flows for loan repayment and the borrower's inability to repay the loan on a timely basis.

***Doubtful***. Loans should be classified as doubtful if the borrower cannot repay the principal and interest in full and significant losses will need to be recognized even when collateral or guarantees are invoked. Loans in the doubtful category generally demonstrate the following characteristics:

- the borrower is experiencing financial losses, unable to repay the loan and cannot obtain other funding;
- the borrower is unable to make repayment even after receiving funds from the disposal of intangible assets, property, equipment or shares;
- the borrower's production or operations have been suspended or partially suspended, or the infrastructure project financed by our loans has been suspended; or
- the loans are still overdue or the borrower is still unable to repay the loans notwithstanding the loan restructuring.

***Loss.*** Loans should be classified as loss if only a minimal portion or no principal and interest could be recovered after all possible measures have been taken and all legal remedies have been exhausted. Corporate loans in the loss category generally demonstrate the following characteristics:

- legal actions have been brought against the borrower to recover the loan, but even after the enforcement of court's order, we may still incur a significant loss on the loan;
- although the borrower's operations continue, there is no market for its products and the borrower has become insolvent and incurred significant losses, and is on the verge of bankruptcy, and the government has no plan to bail it out, and it has become clear that the borrower cannot honor its repayment obligations;
- the borrower or the guarantor has been declared bankrupt or been dissolved or closed down, and terminated as a legal entity, or had their business licenses revoked, the loans thereof remain unpaid after the pursuit of recovery;
- serious natural disasters or unforeseen events have resulted in significant losses of the borrower without insurance coverage or the loan remains unpaid in full or in part even after payment on insurance claims and our pursuit of recovery;
- the loans remain unpaid even after the conclusion of a judicial proceeding with respect to the borrower and the guarantor, or the enforcement of the guarantee or foreclosure on the collateral; or
- the action brought against the borrower and the guarantor has lapsed with respect to the statute of limitations, or we have lost the important documents evidencing our credit rights, and the loans remain unpaid after our pursuit of recovery.

Loans that need to be restructured should be at least classified as substandard. Restructured loans refer to loans of which we amend the repayment terms under the loan contract due to deterioration of the borrower's financial position or the borrower's inability to repay the loan. The restructured loan should at least be classified as doubtful if it is still overdue after the restructuring, or the borrower is still unable to repay the loan after the restructuring.

*Personal Loans*

In applying the loan classification criteria to personal loans, we primarily took into account the length of time by which payments of principal or interest were overdue and the type of collateral.

In applying the loan classification criteria to residential mortgage loans, automobile mortgage loans and personal consumption loans, we primarily consider the length of period principal or interest past due and the type of collateral involved. The following table sets forth the classification of our residential mortgage loans, automobile mortgage loans and personal consumption loans by the length of period principal or interest past due and by different types of collateral:

| Current | 1 – 30 days or overdue for one period (including) | 31 – 60 days or overdue for two periods (including) | 61 – 90 days or overdue for three periods (including) | 91– 180 days or overdue for four to six periods (including) | Overdue for over 180 days or overdue for over seven periods |
|---|---|---|---|---|---|
| Normal | Normal | Special mention | Special mention | Substandard | Doubtful |

The following table[1] sets forth the classification of our other personal loans by the length of period principal or interest past due and by different types of collateral:

| Overdue days | Current | | | 1 – 30 days or one period (inclusive) | | | 31 – 60 days or one to two period(s) (inclusive) | | | 61 – 90 days or two to three periods (inclusive) | | | 91– 120 days or three to four periods (inclusive) | | | 121– 180 days or four to six periods (inclusive) | | | 181– 270 days or six to nine periods (inclusive) | | | Over 270 days or over nine periods (inclusive) | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Overdue by | | | | | | | | | | | | | | | | | | | | | | | |
| Collateral quality | Excellent | Good | General or unclassified | Excellent | Good | General or unclassified | Excellent | Good | General or unclassified | Excellent | Good | General or unclassified | Excellent | Good | General or unclassified | Excellent | Good | General or unclassified | Excellent | Good | General or unclassified | Excellent | Good | General or unclassified |
| Pledged loans | N | N | N | N | N | N | N | S | S | S | S | S | SS | SS | SS | SS | SS | D | SS | D | D | D | D | D |
| Collateralized loans | N | N | N | N | N | S | S | S | S | S | SS | SS | SS | SS | D | SS | D | D | D | D | D | D | D | D |
| Guaranteed loans | N | N | N | N | S | S | S | SS | SS | SS | SS | D | SS | D | D | D | D | D | D | D | D | D | D | D |
| Unsecured loans | N | N | N | N | S | S | S | SS | SS | SS | D | D | D | D | D | D | D | D | D | D | D | D | D | D |

*Note:*

(1) N stands for Normal (正常); S stands for Special mention (關注); SS stands for Substandard (次級); and D stands for Doubtful (可疑).

In addition, loans classified as loss also included (i) credit assets considered satisfied with one of the conditions to be classified as doubtful; or (ii) personal loans of which the borrowers are insolvent and expected loss will be more than 90% of the principal amount even if collaterals are disposed of or payments from guarantors are demanded.

*Credit Card Balances*

In applying the loan classification criteria to credit card balances, we consider the length of time by which the required minimum repayment is overdue. The following table sets forth the five-category loan classification of credit card balances by time by which the required minimum repayment is overdue.

| | **Classification** |
|---|---|
| Current | Normal |
| Required minimum repayment overdue by | |
| 1 to 90 days | Special mention |
| 91 – 120 days | Substandard |
| 121 – 180 days | Doubtful |
| Over 181 days | Loss |

***Distribution of Loans to Customers by Loan Classification***

The following table sets forth the distribution of our loan portfolio by the five-category loan classification as of the dates indicated. Under our five-category loan classification system, our non-performing loans include those classified as substandard, doubtful or loss.

| | **As of December 31,** | | | | | | **As of March 31,** | |
|---|---|---|---|---|---|---|---|---|
| | **2018** | | **2019** | | **2020** | | **2021** | |
| | **Amount** | **% of total** | **Amount** | **% of total** | **Amount** | **% of total** | **Amount** | **% of total** |
| | *(in millions of RMB, except percentages)* | | | | | | | |
| Normal | 159,021.1 | 96.66% | 199,761.5 | 97.05% | 254,707.4 | 97.42% | 269,473.2 | 97.80% |
| Special mention | 3,245.8 | 1.97% | 4,121.1 | 2.00% | 4,710.5 | 1.80% | 4,145.3 | 1.50% |
| **Subtotal** | 162,266.9 | 98.73% | 203,882.6 | 99.06% | 259,417.9 | 99.22% | 273,618.5 | 99.30% |
| Substandard | 246.4 | 0.15% | 374.4 | 0.18% | 732.5 | 0.28% | 676.6 | 0.20% |
| Doubtful | 1,755.8 | 1.07% | 1,478.7 | 0.72% | 1,205.6 | 0.46% | 1,329.3 | 0.50% |
| Loss | 83.7 | 0.05% | 91.1 | 0.04% | 94.6 | 0.04% | 126.2 | 0.00% |
| **Subtotal** | 2,085.9 | 1.27% | 1,944.2 | 0.94% | 2,032.7 | 0.78% | 2,132.1 | 0.70% |
| **Total loans to customers** | **164,352.8** | **100.00%** | **205,826.8** | **100.00%** | **261,450.6** | **100.00%** | **275,750.6** | **100.00%** |
| **NPL ratio[(1)]** | **1.27%** | | **1.00%** | | **0.82%** | | **0.79%** | |

*Note:*

(1) Calculated by dividing the amount of NPL (excluding accrued interest) by total amount of loans (excluding accrued interest). For the purpose of NPL ratio calculation, the NPL ratio of Zhanjiang RCB, our subsidiary, was calculated by the original book value of the loans as of December 31, 2019 and 2020 and March 31, 2021, respectively, and not the fair value on the combination date. For the purpose of NPL ratio calculation, the NPL ratio of Chaoyang RCB, our subsidiary, was calculated by the original book value of the loans as of December 31, 2020 and March 31, 2021 and not the fair value on the combination date.

The following table sets forth the distribution of our loans to customers by business line and by the five-category loan classification system as of the dates indicated.

| | As of December 31, | | | | | | As of March 31, | |
|---|---|---|---|---|---|---|---|---|
| | 2018 | | 2019 | | 2020 | | 2021 | |
| | Amount | % of total(1) | Amount | % of total(1) | Amount | % of total(1) | Amount | % of total(1) |
| | (in millions of RMB, except percentages) | | | | | | | |
| **Corporate loans** | | | | | | | | |
| Normal | 90,632.4 | 94.92% | 102,476.9 | 95.17% | 131,438.2 | 96.17% | 140,134.5 | 96.87% |
| Special mention | 3,064.6 | 3.21% | 3,615.8 | 3.36% | 4,038.1 | 2.95% | 3,271.7 | 2.26% |
| Substandard | 194.3 | 0.20% | 236.6 | 0.22% | 313.8 | 0.23% | 324.5 | 0.22% |
| Doubtful | 1,568.4 | 1.64% | 1,330.9 | 1.24% | 882.2 | 0.65% | 925.9 | 0.64% |
| Loss | 20.4 | 0.02% | 22.1 | 0.02% | 1.3 | 0.00% | 4.0 | 0.00% |
| **Subtotal** | **95,480.1** | **100.00%** | **107,682.3** | **100.00%** | **136,673.6** | **100.00%** | **144,660.6** | **100.00%** |
| **NPL ratio(2)** | **1.87%** | | **1.52%** | | **0.94%** | | **0.89%** | |
| **Personal loans** | | | | | | | | |
| Normal | 49,058.6 | 99.02% | 79,188.4 | 98.93% | 96,508.1 | 98.45% | 103,322.5 | 98.33% |
| Special mention | 180.3 | 0.36% | 505.3 | 0.63% | 672.4 | 0.69% | 873.6 | 0.83% |
| Substandard | 52.1 | 0.11% | 137.8 | 0.17% | 418.7 | 0.43% | 352.1 | 0.34% |
| Doubtful | 187.4 | 0.38% | 147.8 | 0.18% | 323.4 | 0.33% | 403.4 | 0.38% |
| Loss | 63.3 | 0.13% | 69.0 | 0.09% | 93.3 | 0.10% | 122.2 | 0.12% |
| **Subtotal** | **49,541.7** | **100.00%** | **80,048.3** | **100.00%** | **98,015.9** | **100.00%** | **105,073.8** | **100.00%** |
| **NPL ratio(2)** | **0.61%** | | **0.53%** | | **0.87%** | | **0.86%** | |
| **Discounted and rediscounted bills** | | | | | | | | |
| Normal | 19,330.1 | 100.00% | 18,096.2 | 100.00% | 26,761.1 | 100.00% | 26,016.2 | 100.00% |
| Special mention | 0.9 | 0.00% | — | 0.00% | — | 0.00% | — | 0.00% |
| Substandard | — | 0.00% | — | 0.00% | — | 0.00% | — | 0.00% |
| Doubtful | — | 0.00% | — | 0.00% | — | 0.00% | — | 0.00% |
| Loss | — | 0.00% | — | 0.00% | — | 0.00% | — | 0.00% |
| **Subtotal** | **19,331.0** | **100.00%** | **18,096.2** | **100.00%** | **26,761.1** | **100.00%** | **26,016.2** | **100.00%** |
| **NPL ratio(2)** | **0.00%** | | **0.00%** | | **0.00%** | | **0.00%** | |
| **Total loans to customers** | **164,352.8** | | **205,826.8** | | **261,450.6** | | **275,750.6** | |
| **NPL ratio(3)** | **1.27%** | | **1.00%** | | **0.82%** | | **0.79%** | |

*Notes:*

(1) Calculated by dividing loans in each category by total loans in that category.

(2) Calculated by dividing NPLs in each business line by loans in that business line.

(3) Calculated by dividing the amount of NPL (excluding accrued interest) by total amount of loans (excluding accrued interest). For the purpose of NPL ratio calculation, the NPL ratio of Zhanjiang RCB was calculated by the original book value of the loans as of December 31, 2019 and 2020 and March 31, 2021, respectively, and not the fair value on the combination date. For the purpose of NPL ratio calculation, the NPL ratio of Chaoyang RCB was calculated by the original book value of the loans as of December 31, 2020 and March 31, 2021 and not the fair value on the combination date.

Our NPL ratio decreased from 1.27% as of December 31, 2018 to 1.00% as of December 31, 2019, and further decreased to 0.82% as of December 31, 2020. As of March 31, 2021, the NPL ratio decreased to 0.79%, reflecting our continuous efforts to strengthen our risk management and internal control while expanding our business. The relatively low NPL ratio of our Bank was primarily attributable to our efforts in controlling risks from the initial stage of loan review process by focusing on the primary and secondary repayment sources of customers and selecting collaterals with higher risk mitigation capabilities. In addition, we conduct annual investigation on risk loans, and formulated handling plans for risk and non-performing loans on a case-by-case basis. Assessment plans were also implemented for different subsidiaries, branches and departments to facilitate the solution of non-performing and risk loans.

***Loans Classified as Special Mention***

As of December 31, 2018, 2019 and 2020 and March 31, 2021, the balance of our customer loans classified as special mention was RMB3,245.8 million, RMB4,121.1 million, RMB4,710.5 million and RMB4,145.3 million, respectively. The percentage of loans classified as special mention to total customer loans decreased from 1.80% as of December 31, 2020 to 1.50% as of March 31, 2021, primarily due to the lower increased amount of new special mention loans as compared to the decreased amount through settlement and upward adjustment of classification of certain special mention loans in the first three months of 2021. The percentage of loans classified as special mention to total customer loans slightly decreased from 2.00% as of December 31, 2019 to 1.80% as of December 31, 2020, primarily due to our efforts in controlling the growth of loans classified as special mention through risk mitigation with the increase in loan amount. The percentage of loans classified as special mention to total customer loans slightly increased from 1.97% as of December 31, 2018 to 2.00% as of December 31, 2019, primarily due to the consolidation of Zhanjiang RCB in 2019.

The following table sets forth the distribution of our loans classified as special mention to customers by collateral as of the dates indicated.

| | As of December 31, | | | | | | As of March 31, | |
|---|---|---|---|---|---|---|---|---|
| | 2018 | | 2019 | | 2020 | | 2021 | |
| | Amount | % of total | Amount | % of total | Amount | % of total | Amount | % of total |
| | *(in millions of RMB, except percentages)* | | | | | | | |
| Pledged loans[(1)(2)] | 405.9 | 12.5% | 12.5 | 0.3% | 234.1 | 5.0% | 229.1 | 5.5% |
| Collateralized loans[(1)(3)] | 1,445.3 | 44.5% | 2,150.5 | 52.2% | 2,874.7 | 61.0% | 2,178.7 | 52.6% |
| Guaranteed loans | 1,336.0 | 41.2% | 1,809.0 | 43.9% | 1,354.8 | 28.8% | 1,417.2 | 34.2% |
| Unsecured loans | 58.6 | 1.8% | 149.1 | 3.6% | 246.9 | 5.2% | 320.3 | 7.7% |
| **Total** | **3,245.8** | **100.0%** | **4,121.1** | **100.0%** | **4,710.5** | **100.0%** | **4,145.3** | **100.0%** |

*Notes:*

(1) Represented the total amount of loans wholly or partially secured by collateral in each category. If a loan is secured by more than one form of security interest, the classification is based on the primary form of security interest.

(2) Represented security interests in intangible assets or monetary assets, such as movable assets, certificates of deposit, financial instruments, intellectual properties and interests in future cash flows, by taking possession of, or registering against, such assets.

(3) Represented security interests in tangible assets other than monetary assets, such as buildings and fixtures, land use rights, machines, equipment and vehicles, without taking possession.

***Changes in Asset Quality of Our Loans***

The following table sets forth the changes in our NPLs for the periods indicated.

| | As of December 31, | | | As of March 31, |
|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 |
| | *(in millions of RMB, except percentages)* | | | |
| **Beginning of the year** | **1,876.2** | **2,085.9** | **1,944.2** | **2,032.7** |
| **Acquisition of subsidiaries** | **—** | **0.4** | **23.5** | **—** |
| **Increase** | **1,532.0** | **1,515.6** | **1,587.6** | **298.9** |
| Downgrades[1] | 1,497.7 | 1,385.3 | 1,419.3 | 298.8 |
| New loans[2] | 34.2 | 130.4 | 168.3 | 0.1 |
| **Decrease** | **(1,322.3)** | **(1,657.7)** | **(1,522.6)** | **(199.5)** |
| Write-offs[3] | (436.9) | (1,144.0) | (786.6) | — |
| Recoveries | (374.4) | (204.5) | (396.2) | (105.0) |
| Upgrades[4] | (60.6) | (76.7) | (232.4) | (62.0) |
| Transfers[5] | (441.1) | (211.9) | (87.4) | (26.1) |
| Loan restructuring[6] | (6.3) | (20.6) | (20.0) | (6.4) |
| Payment in kind[7] | (3.0) | — | — | — |
| **End of the year/period** | **2,085.9** | **1,944.2** | **2,032.7** | **2,132.1** |
| **NPL ratio** | **1.27%** | **1.00%** | **0.82%** | **0.79%** |

*Notes:*

(1) Refers to downgrades of loans classified as normal or special mention at the end of last year to non-performing.

(2) Refers to loans newly extended in current year downgraded to non-performing.

(3) Refers to write-offs of doubtful debt that cannot be recovered.

(4) Refers to upgrades of NPLs to normal or special mention classifications.

(5) Refers to NPLs transferred to third parties.

(6) Refers to NPLs restructured through methods such as asset transfer, merger, acquisition and spin-off.

(7) Refers to real assets or property rights pledged against debts.

Our Bank undertakes a series of NPL management measures to recover the outstanding loan amount. If we deem an NPL to be un-recoverable after the implementation of all necessary NPL management measures, the relevant outstanding amount may be recognized as allowance of doubtful debts and written off from the financial statements pursuant to the Administrative Measures for Write-off of Doubtful Debts by Financial Institutions (2017 version) (《金融企業呆帳核銷管理辦法（2017年版）》) promulgated by the MOF or other relevant policies. Our Bank reserves the right to payment collection.

The NPL management measures we generally undertake include but not limited to:

- *Initial collection efforts*: when a loan first became past due, we put the borrower on notice of the default and urge the borrower to make payment due through one or more means of contact, such as collecting in person, making phone calls or issuing collection notice;

- *legal proceedings*: following the initial collection efforts, we may initiate legal proceedings and judiciary measures to enforce our creditor's rights;

- *Bankruptcy or liquidation application*: if a debtor becomes insolvent and the trend of operating losses is irreversible or there is evidence that a debtor has transferred its assets, our Bank may submit to the court a bankruptcy or liquidation application against the debtor to preserve its assets;

- *Loan restructuring*: we may restructure an NPL by extending the repayment period or granting the borrower a roll-over loan if we believe such measure could reduce the credit risk of the NPL through future collection; and

- *Transfer of creditor's rights to third parties*: we may dispose of an NPL and transfer our creditor's rights to such NPL to certain third parties (the "**NPL Transfer**").

*NPL Transfers*

NPL Transfers are an effective and expedite type of recovery measure. We have formulated Implementation Rules of Pricing Management for the Disposal of Non-performing Assets (《不良資產處置定價管理實施細則》) to determine the disposal price of credit assets. We make internal assessment or rely on external valuation in price determination and take into account factors such as the repayment capability of debtors and the realizable value of collaterals.

The table below sets forth details of our NPL Transfers during the Track Record Period:

| | For the years ended December 31, | | | For the three months ended March 31, |
|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 |
| | *(in millions of RMB, except for percentages)* | | | |
| **Aggregate outstanding NPL amount** | | | | |
| Principal amount | 441.1 | 211.9 | 87.4 | 26.1 |
| Interest amount | 42.1 | 29.5 | 4.9 | 0.7 |
| Legal fee | <0.1 | 0.6 | 0.2 | 0.1 |
| **Total** | **483.2** | **242.0** | **92.5** | **26.9** |
| **Aggregate cash received through NPL Transfers** | **456.3** | **227.2** | **92.5** | **26.9** |
| **Recovery rate(1)** | **94.4%** | **93.9%** | **100.0%** | **100.0%** |

*Note*:

(1) Calculated by dividing the aggregate cash received through NPL Transfers by the aggregate outstanding NPL amount.

In addition, we also evaluate the relationship between the principal amount of NPLs recovered through NPL Transfers and cash recovered through NPL management measures other than NPL Transfers, to reflect our reliance on NPL Transfers as a NPL management measure. We calculate a percentage by dividing (i) the aggregate principal amount of NPLs disposed by us through NPL Transfers, which was RMB441.1 million, RMB211.9 million, RMB87.4 million and RMB26.1 million for the years ended December 31, 2018, 2019 and 2020 and for the three months ended March 31, 2021, respectively, by (ii) aggregate amount of cash we recovered, which in turn is the sum of (a) the aggregate principal amount of cash we collected on NPLs through all NPL management measures other than NPL Transfers, which was RMB374.4 million, RMB204.5 million, RMB396.2 million and RMB105.0 million for the years ended December 31, 2018, 2019 and 2020 and for the three months ended March 31, 2021, respectively and (b) the aggregate principal amount of NPLs disposed by the Group through NPL Transfers. Such percentages were 54.1%, 50.9%, 18.1% and 19.9% for the years ended December 31, 2018, 2019 and 2020 and for the three months ended March 31, 2021, respectively. For the same periods, the expected credit losses at the time of transfers for such Transferred NPLs of the Group are RMB277.5 million, RMB179.1 million, RMB74.9 million and RMB14.9 million, respectively.

During the Track Record Period, we transferred NPLs to the NPL Transferees primarily through public tenders, auctions or biddings, where potential transferee publicly bid for the NPLs, and those with the highest price above the bottomline price became the NPL transferees. NPL transferees generally include, among others, industrial investment companies, investment consultants and other investors permitted under the relevant laws and regulations (the "**NPL Transferees**").

We undertake NPL transfer when: (i) it is difficult to collect such NPLs, and the progress of judicial proceedings are relatively slow; or (ii) there are potential prospective buyers, and through the transfer of creditor's rights, NPLs can be disposed and recovered quickly. Pursuant to the relevant transfer agreements and notices of the relevant public tenders, auctions or biddings, the NPL Transferees will accept the *status quo* of the target on the record date, including but not limited to the defects and risks of the target creditor's rights, and the NPL Transferees has no recourse against us upon completion of the transfer.

According to the Notice on Issues Related to RMB Loan Interest Rate (Yinfa [2003] No. 251) (《關於人民幣貸款利率有關問題的通知》) issued by PBoC on December 10, 2003, commercial banks may charge 30% to 50% penalty interests in addition to the loan interest provided in the loan facility agreement on the defaulted loans. Pursuant to the loan facility agreements entered into by us and the respective borrowers, we are entitled to accrue and claim interests and penalties for the overdue loans from the overdue date until the final settlement of such transferred NPLs, which usually being the compound interests charged for the defaulted interests and/or the additional 50% of the loan interest rate per day on the outstanding principal amount as penalties for the defaulted principal in accordance with the relevant PBoC regulations (the "**Additional Entitlement**"). Pursuant to the NPL transfer agreements entered into by us and the NPL Transferees, the creditor's rights and other ancillary rights entitled to us under the loan facility agreements (including but not limited to the Additional Entitlement) are transferred to the NPL Transferees, including the priority rights of compensation in respect of the proceeds from the auction or sale of the collaterals and/or pledges in the event of default by the borrowers. Borrowers shall repay directly to the respective NPL Transferees without further involvement from us. We are not entitled to any amount paid by the borrower to the respective NPL Transferees, and we cease to enjoy such rights upon completion of the NPL transfers.

The process of transferring NPLs includes: (i) branches or relevant departments investigate and analyze certain factors such as the risk level of NPLs, the progress of litigation collection, the feasibility of transfer, market demand, in order to make a preliminary assessment based on the purchase intention and reaction of potential transferees to judge the feasibility of asset transfer; (ii) the bottomline price of asset transfer shall be determined according to the Detailed Rules for the Implementation of Pricing Management of Non-performing Assets Disposal (《不良資產處置定價管理實施細則》) implemented by our Bank, including the debtor's solvency and the realized value of collateral, and the transfer bottomline price shall be determined by internal or external evaluation methods. For creditor's rights assets with effective mortgage or repossessed property, or individual creditor's rights with loan principal and interest exceeding RMB5.0 million, it shall generally be evaluated by an evaluation agency, and the evaluation results shall serve as a reference for pricing. For loan principal and interest less than RMB5.0 million or if there is no loss of the loan principal in the proposed transfer price, the evaluation can be done internally; (iii) on the basis of investigation and analysis, branches or relevant departments should evaluate the reasonableness of the bottomline price of asset transfer and formulate a non-performing asset transfer plan. The plan should specify the status of the assets to be transferred, pricing method, transfer price (bottomline price), transfer method and reason, specific operating procedures, selection of intermediary institutions, payment method and estimated income, expenses and losses, and submit them to the head office for approval; (iv) the comprehensive risk management department of the head office reviews the transfer plan and issues review opinions, which are submitted to the non-performing asset disposal pricing group of the head office for review and approval, and then submitted to the Non-performing Asset Management Committee (不良資產管理委員會) and president of the head office for collective review and approval. If it exceeds the authorized authority of the committee, the plan is submitted to the board of directors of the Bank for approval; and (v) after the approval of the transfer plan, the transfer will be publicly announced such as in auction or tender.

During the Track Record Period and up to the Latest Practicable Date, one of the NPL Transferees is a connected person of us, Dongguan Tuoxin Industrial Investment Co., Ltd. (東莞市拓信實業投資有限公司, the "**Dongguan Tuoxin**"). On January 2, 2019, we transferred our NPLs with an aggregate amount, including interest of RMB140.8 million (the "**Relevant NPL**") to Dongguan Tuoxin for a transfer price of RMB140.8 million. The transfer of the Relevant NPL was conducted through public tender and complied with relevant laws and regulations. Transfer price of the Relevant NPL fully covered total outstanding amount (accrued interest included) of the NPL and we incurred no losses.

To the best knowledge of our Directors, during the Track Record Period, saved as disclosed above and apart from the general banking services such as bank loans, bank acceptance bills, credit and debit cards, wealth management products, savings (collectively known as "**General Banking Services**") provided to the NPL Transferees, their respective shareholders, directors, senior management or any of their respective associates, none of the NPL Transferees, their respective shareholders, directors, senior management or any of their respective associates has any other past or present shareholding, business, family, trust (financing or otherwise) or employment relationships with our Bank, our subsidiary, Directors, Shareholders or our senior managements.

In addition to transfer our NPLs to third parties, other disposal methods such as restructuring are also the options for us to manage our NPLs. Restructuring is primarily applicable to cases when the value of debt restructuring is higher than the value recovered from liquidation or other disposal ways. In particular, one of the following criteria shall be satisfied, provided that there is no significant deterioration in the conditions of other assets of the debtors: (i) the financial position and solvency of the borrower can be improved through restructuring; (ii) material deficiencies of the legal procedures on the assets can be compensated through restructuring; (iii) terms of guarantees can be supplemented or refined through restructuring; or (iv) bank loans can be partially repaid through restructuring.

The following table sets forth the migration ratios of our loan portfolio, calculated in accordance with the applicable CBIRC requirements for the years indicated.

| | Years ended December 31, | | | Three months ended March 31, |
|---|---|---|---|---|
| | **2018** | **2019** | **2020** | **2021** |
| Normal and special mention loans[(1)] | 1.5% | 1.1% | 0.6% | 0.1% |
| Normal loans[(2)] | 1.4% | 2.0% | 1.4% | 0.3% |
| Special mention loans[(3)] | 32.4% | 30.7% | 15.9% | 1.3% |
| Substandard loans[(4)] | 91.5% | 91.8% | 51.5% | 18.2% |
| Doubtful loans[(5)] | 1.4% | 0.4% | 0.0% | 0.7% |

*Notes:*

(1) Represented migration ratios of loans classified as normal or special mention which were downgraded to other classifications. The migration ratio of normal and special mention loans represented a fraction, the numerator of which equaled the sum of (i) loans classified as normal at the beginning date of the period and downgraded to non-performing classifications at the end of the period, and (ii) loans classified as special mention at the beginning date of the period and downgraded to non-performing classifications at the end of the period, and the denominator of which equaled the sum of (i) the difference between the balance of normal loans at the beginning date of the period and the decrease, in the period, in the loans which were classified as normal at the beginning date of the period, and (ii) the difference between the balance of special mention loans at the beginning date of the period and the decrease in such loans in the period.

(2) Represented migration ratio of loans classified as normal which were downgraded to other classifications. The normal loan migration ratio represented a fraction, the numerator of which equaled loans classified as normal at the beginning date of the period and downgraded to lower classifications at the end of the period, and the denominator of which equaled the difference between the balance of normal loans at the beginning date of the period and the decrease in such loans in the period.

(3) Represented migration ratio of loans classified as special mention which were downgraded to non-performing loans. The special mention loan migration ratio represented a fraction, the numerator of which equaled the loans which were classified as special mention at the beginning date of the period and downgraded to non-performing loans at the end of the period, and the denominator of which equaled the difference between the balance of special mention loans at the beginning date of the period and the decrease in such loans in the period.

(4) Represented migration ratio of loans classified as substandard which were downgraded to doubtful or loss. The substandard loan migration ratio represented a fraction, the numerator of which equaled the loans classified as substandard at the beginning date of the period and downgraded to doubtful or loss at the end of the period, and the denominator of which equaled the difference between the balance of substandard loans at the beginning date of the period and the decrease in such loans in the period.

(5) Represented migration ratio of loans classified as doubtful which were downgraded to loss at the end of the period. The doubtful loan migration ratio represented a fraction, the numerator of which equaled the loans classified as doubtful at the beginning date of the period and downgraded to loss at the end of the period, and the denominator of which equaled the difference between the balance of doubtful loans at the beginning date of the period and the decrease in such loans in the period.

The migration ratio of our special mention loans decreased from 32.4% for the year ended December 31, 2018 to 30.7% for the year ended December 31, 2019, and further decreased to 15.9% for the year ended December 31, 2020, primarily due to our strengthened risk control measures on the special mentioned loans. The migration ratio of our special mention loans decreased from 15.9% for the year ended December 31, 2020 to 1.3% for the three months ended March 31, 2021, primarily attributable to the relative lower downgrade amount of special mention loans in the first three months of 2021.

The migration ratio of our substandard loans decreased from 51.5% for the year ended December 31, 2020 to 18.2% for the three months ended March 31, 2021, primarily due to the relative lower downgrade amount of substandard loans in the first three months of 2021. The migration ratio of our substandard loans decreased from 91.8% for the year ended December 31, 2019 to 51.5% for the year ended December 31, 2020, primarily due to our increasing efforts in settlement and disposal of substandard loans. The migration ratio of our substandard loans slightly increased from 91.5% for the year ended December 31, 2018 to 91.8% for the year ended December 31, 2019, primarily due to the deterioration in the quality of certain of our substandard loans.

The migration ratio of our doubtful loans decreased from 1.4% for the year ended December 31, 2018 to 0.4% for the year ended December 31, 2019, and further decreased to 0.0% for the year ended December 31, 2020, primarily due to our increasing efforts in settlement and disposal of our doubtful loans. The migration ratio of our doubtful loans increased from 0.0% for the year ended December 31, 2020 to 0.7% for the three months ended March 31, 2021, primarily due to the relative higher downgrade amount of doubtful loans in the first three months of 2021.

***Distribution of NPLs by Product Type***

The following table sets forth the distribution of our non-performing loans by product type as of the dates indicated.

| | As of December 31, | | | | | | | | | As of March 31, | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2018 | | | 2019 | | | 2020 | | | 2021 | | |
| | Amount | % of total | NPL ratio(1) | Amount | % of total | NPL ratio(1) | Amount | % of total | NPL ratio(1) | Amount | % of total | NPL ratio(1) |
| | *(in millions of RMB, except percentages)* | | | | | | | | | | | |
| **Corporate loans** | | | | | | | | | | | | |
| Working capital loans | 973.7 | 46.7% | 2.27% | 847.9 | 43.6% | 1.89% | 737.1 | 36.3% | 1.23% | 755.8 | 35.4% | 1.24% |
| Fixed asset loans | 503.3 | 24.1% | 0.98% | 734.3 | 37.8% | 1.25% | 455.3 | 22.4% | 0.72% | 493.9 | 23.2% | 0.65% |
| Others(2) | 306.1 | 14.7% | 22.31% | 7.4 | 0.4% | 0.80% | 4.9 | 0.2% | 0.12% | 4.7 | 0.2% | 0.09% |
| **Subtotal** | **1,783.1** | **85.5%** | **1.87%** | **1,589.6** | **81.8%** | **1.52%** | **1,197.3** | **58.9%** | **0.94%** | **1,254.4** | **58.8%** | **0.89%** |
| **Personal loans** | | | | | | | | | | | | |
| Personal business loans | 113.1 | 5.4% | 1.16% | 124.2 | 6.4% | 1.01% | 288.6 | 14.2% | 1.19% | 324.8 | 15.2% | 1.25% |
| Property mortgages | 59.4 | 2.8% | 0.25% | 63.3 | 3.3% | 0.21% | 273.9 | 13.5% | 0.73% | 265.3 | 12.4% | 0.67% |
| Credit card balances | 75.5 | 3.6% | 0.69% | 92.3 | 4.7% | 0.85% | 129.2 | 6.4% | 1.57% | 117.6 | 5.6% | 1.55% |
| Personal consumption loans | 54.8 | 2.7% | 1.03% | 74.8 | 3.8% | 0.43% | 143.7 | 7.0% | 0.55% | 170.0 | 8.0% | 0.57% |
| **Subtotal** | **302.8** | **14.5%** | **0.61%** | **354.6** | **18.2%** | **0.52%** | **835.4** | **41.1%** | **0.87%** | **877.7** | **41.2%** | **0.86%** |
| **Total non-performing loans** | **2,085.9** | **100.0%** | **1.27%** | **1,944.2** | **100.0%** | **1.00%** | **2,032.7** | **100.0%** | **0.82%** | **2,132.1** | **100.0%** | **0.79%** |

*Notes:*

(1) Calculated by dividing the amount of NPL (excluding accrued interest) by total amount of loans (excluding accrued interest). For the purpose of NPL ratio calculation, the NPL ratio of Zhanjiang RCB, our subsidiary, was calculated by the original book value of the loans as of December 31, 2019 and 2020 and March 31, 2021, respectively, and not the fair value on the combination date. For the purpose of NPL ratio calculation, the NPL ratio of Chaoyang RCB was calculated by the original book value of the loans as of December 31, 2020 and March 31, 2021 and not the fair value on the combination date.

(2) Consisted primarily of advances and mortgage loans on mechanical equipment.

The NPL ratio for our corporate loans decreased from 1.87% as of December 31, 2018 to 1.52% as of December 31, 2019 and further decreased to 0.94% as of December 31, 2020, primarily attributable to our strengthened efforts in settlement of our NPL and doubtful debt write-off. The NPL ratio for our corporate loans slightly decreased from 0.94% as of December 31, 2020 to 0.89% as of March 31, 2021, primarily due to the continuous increase in the amount of total corporate loans. The NPL ratio for other corporate loans decreased from 22.31% as of December 31, 2018 to 0.80% as of December 31, 2019, primarily due to the decrease in advances through doubtful debt write-off, and further decreased to 0.12% as of December 31, 2020, as the balance of the NPL of other loans significantly decreased from RMB306.1 million to RMB7.4 million and further decreased to RMB4.9 million as of the respective date, which was a result of the write-off of doubtful debt in respect of the mortgage loans on mechanical equipment.

The NPL ratio for our personal loans was 0.86% as of March 31, 2021, which remains relatively stable as compared with that of 0.87% as of December 31, 2020. The NPL ratio for our personal loans increased from 0.52% as of December 31, 2019 to 0.87% as of December 31, 2020, primarily due to the increase in the amount of NPLs for personal residential mortgage loans and credit cards caused by the pandemic in 2020. The NPL ratio for our personal loans decreased from 0.61% as of December 31, 2018 to 0.52% as of December 31, 2019. The decreases in the NPL ratio for our personal loans were primarily attributable to our strengthened efforts in settlement and disposal of our NPL.

***Distribution of Non-Performing Corporate Loans by Industry***

The following table sets forth the distribution of our NPLs to corporate customers by industry as of the dates indicated.

| | As of December 31, | | | | | | | | | As of March 31, | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2018 | | | 2019 | | | 2020 | | | 2021 | | |
| | Amount | % of total | NPL ratio(1) | Amount | % of total | NPL ratio(1) | Amount | % of total | NPL ratio(1) | Amount | % of total | NPL ratio(1) |
| | (in millions of RMB, except percentages) | | | | | | | | | | | |
| Real estate | — | — | — | — | — | — | 4.1 | 0.4% | 0.04% | 4.3 | 0.3% | 0.03% |
| Culture, sports and entertainment | — | — | — | — | — | — | 1.3 | 0.1% | 2.89% | 1.0 | 0.1% | 23.73% |
| Wholesale and retail | 891.9 | 50.0% | 4.36% | 547.7 | 34.5% | 2.35% | 395.6 | 33.0% | 1.69% | 396.4 | 31.7% | 1.56% |
| Electricity, gas and water production and supply | 367.6 | 20.6% | 7.54% | 639.5 | 40.2% | 14.21% | 333.0 | 27.8% | 6.26% | 333.0 | 26.5% | 5.63% |
| Leasing and commercial services | 87.0 | 4.9% | 0.44% | 201.8 | 12.7% | 0.89% | 202.1 | 16.9% | 0.99% | 243.4 | 19.4% | 0.88% |
| Construction | 75.0 | 4.2% | 0.44% | 68.7 | 4.3% | 0.48% | 171.1 | 14.3% | 0.82% | 168.0 | 13.4% | 0.75% |
| Manufacturing | 280.2 | 15.7% | 1.96% | 112.7 | 7.1% | 0.67% | 60.3 | 5.0% | 0.27% | 78.0 | 6.2% | 0.32% |
| Hotels and catering industries | 1.2 | 0.1% | 0.13% | 2.4 | 0.1% | 1.42% | 22.9 | 1.9% | 1.72% | 23.8 | 1.9% | 1.74% |
| Agriculture, forestry, animal husbandry and fishery | 31.6 | 1.8% | 3.92% | 7.9 | 0.5% | 2.18% | 6.9 | 0.6% | 0.52% | 4.2 | 0.3% | 0.28% |
| Transportation, logistics and postal services | 8.9 | 0.5% | 0.43% | 8.9 | 0.6% | 0.26% | — | — | — | 2.3 | 0.2% | 0.06% |
| Scientific research and technical services, and geological prospecting | 39.7 | 2.2% | 11.40% | — | — | — | — | — | — | — | — | — |
| **Total non-performing corporate loans** | **1,783.1** | **100.0%** | **1.87%** | **1,589.6** | **100.0%** | **1.52%** | **1,197.3** | **100.0%** | **0.94%** | **1,254.4** | **100.0%** | **0.89%** |

*Note:*

(1) Calculated by dividing the amount of NPL (excluding accrued interest) by total amount of loans (excluding accrued interest). For the purpose of NPL ratio calculation, the NPL ratio of Zhanjiang RCB, our subsidiary, was calculated by the original book value of the loans as of December 31, 2019 and 2020 and March 31, 2021, respectively, and not the fair value on the combination date. For the purpose of NPL ratio calculation, the NPL ratio of Chaoyang RCB was calculated by the original book value of the loans as of December 31, 2020 and March 31, 2021 and not the fair value on the combination date.

Our non-performing corporate loans consisted primarily of loans to corporate borrowers in the wholesale and retail industry, the leasing and commercial services industry and the electricity, gas and water production and supply industry.

As of December 31, 2018, 2019 and 2020 and March 31, 2021, our NPLs to corporate borrowers in the wholesale and retail industry represented 50.0%, 34.5%, 33.0% and 31.7% of our total non-performing corporate loans, respectively. The NPL ratio for corporate loans to borrowers in the wholesale and retail industry decreased from 4.36% as of December 31, 2018 to 2.35% as of December 31, 2019 and further decreased to 1.69% as of December 31, 2020, primarily due to reduction of NPLs by collecting through legal proceedings, transferring creditor's rights and writing off doubtful debt. Our NPL ratio for corporate loans to borrowers in the wholesale and retail industry decreased from 1.69% as of December 31, 2020 to 1.56% as of March 31, 2021, primarily due to transfer of NPLs in the wholesale and retail industry. For details, please see "— Assets — Asset Quality of Our Loan Portfolio — Changes in Asset Quality of Our Loans."

As of December 31, 2018, 2019 and 2020 and March 31, 2021, our NPLs to corporate borrowers in the leasing and commercial services industry represented 4.9%, 12.7%, 16.9% and 19.4% of our total non-performing corporate loans, respectively. Our NPL ratio for corporate loans to borrowers in the leasing and commercial services industry decreased from 0.99% as of December 31, 2020 to 0.88% as of March 31, 2021, primarily due to the increase in our total corporate loans to borrowers in such industry. The NPL ratio for corporate loans to borrowers in the leasing and commercial services industry increased from 0.89% as of December 31, 2019 to 0.99% as of December 31, 2020, primarily due to the addition of NPL upon the consolidation of a new subsidiary in respect of the loans of such subsidiary extended to the leasing and commercial service industry. The NPL ratio for corporate loans to borrowers in the leasing and commercial services industry increased from 0.44% as of December 31, 2018 to 0.89% as of December 31, 2019, primarily due to the transformation of consumption model from offline to online had impact on outlets, which caused slowdown in the leasing and commercial services industry in Dongguan.

As of December 31, 2018 and 2019 and 2020 and March 31, 2021, our NPLs to corporate borrowers in the production and supply of power, gas and water industry represented 20.6%, 40.2%, 27.8% and 26.5% of our total non-performing corporate loans, respectively. The NPL ratio for corporate loans to borrowers in the production and supply of power, gas and water industry decreased from 6.26% as of December 31, 2020 to 5.63% as of March 31, 2021, primarily due to the increase in our total corporate loans to borrowers in such industry. The NPL ratio for corporate loans to borrowers in the production and supply of power, gas and water industry decreased from 14.21% as of December 31, 2019 to 6.26% as of December 31, 2020, primarily due to limited growth of the leasing and commercial services industry resulting from the impact of COVID-19 pandemic on the market demand. The NPL ratio for corporate loans to borrowers in the production and supply of power, gas and water industry increased from 7.54% as of December 31, 2018 to 14.21% as of December 31, 2019, primarily due to the loans to certain customers in the power generation industry being classified as NPL in February 2019 following their failure to purchase gas for power generation due to shortage of funds.

***Distribution of NPLs by Geographical Region***

The following table sets forth the distribution of our NPLs by geographical region as of the dates indicated.

| | As of December 31, | | | | | | | | | As of March 31, | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2018 | | | 2019 | | | 2020 | | | 2021 | | |
| | Amount | % of total | NPL ratio[1] | Amount | % of total | NPL ratio[2] | Amount | % of total | NPL ratio[2] | Amount | % of total | NPL ratio[2] |
| | (in millions of RMB, except percentages) | | | | | | | | | | | |
| Dongguan . . . . . . | 1,778.1 | 85.2% | 1.14% | 1,746.0 | 89.8% | 1.03% | 1,662.8 | 81.8% | 0.78% | 1,805.1 | 84.7% | 0.82% |
| Other Regions . . | 307.8 | 14.8% | 3.50% | 198.2 | 10.2% | 0.83% | 369.9 | 18.2% | 1.00% | 327.0 | 15.3% | 0.69% |
| **Total non-performing loans . . . . . . .** | **2,085.9** | **100.0%** | **1.27%** | **1,944.2** | **100.0%** | **1.00%** | **2,032.7** | **100.0%** | **0.82%** | **2,132.1** | **100.0%** | **0.79%** |

*Notes:*

(1) Calculated by dividing NPLs (excluding accrued interest) by total loans (excluding accrued interest).

(2) The NPL ratio as of December 31, 2018, 2019 and 2020 and March 31, 2021 was calculated by dividing the amount of NPL in each region (excluding accrued interest) by total amount of loans (excluding accrued interest) in that region. For the purpose of NPL ratio calculation, the NPL ratio of Zhanjiang RCB, our subsidiary, was calculated by the original book value of the loans as of December 31, 2019 and 2020 and March 31, 2021, respectively, and not the fair value on the combination date. For the purpose of NPL ratio calculation, the NPL ratio of Chaoyang RCB, our subsidiary, was calculated by the original book value of the loans as of December 31, 2020 and March 31, 2021 and not the fair value on the combination date.

Our NPLs were primarily originated in Dongguan because most of our loans were originated in Dongguan. For the distribution of loans to customers by geographical region, please see "— Assets — Loans and Advances to Customers — Distribution of Loans to Customers by Geographical Region".

***Distribution of NPLs by Collateral***

The following table sets forth the distribution of our NPLs by types of collateral as of the dates indicated.

| | As of December 31, | | | | | | | | | As of March 31, | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2018 | | | 2019 | | | 2020 | | | 2021 | | |
| | Amount | % of total | NPL ratio[1] | Amount | % of total | NPL ratio[5] | Amount | % of total | NPL ratio[5] | Amount | % of total | NPL ratio[5] |
| | (in millions of RMB, except percentages) | | | | | | | | | | | |
| Pledged loans[2][3] . . . . . . | 351.7 | 16.8% | 1.14% | 654.5 | 33.7% | 2.24% | 319.0 | 15.7% | 0.82% | 318.0 | 14.9% | 0.81% |
| Collateralized loans [2][4] . . . . . . . . . . . . . . . | 1,159.4 | 55.6% | 1.31% | 758.3 | 39.0% | 0.75% | 961.6 | 47.3% | 0.78% | 991.6 | 46.5% | 0.72% |
| Guaranteed loans . . . . . . | 498.0 | 23.9% | 1.58% | 404.6 | 20.8% | 1.21% | 435.3 | 21.4% | 0.82% | 447.1 | 21.0% | 0.79% |
| Unsecured loans . . . . . . . | 76.8 | 3.7% | 0.57% | 126.8 | 6.5% | 0.45% | 316.8 | 15.6% | 0.95% | 375.4 | 17.6% | 1.10% |
| **Total non-performing loans . . . . . . . . . . . . . .** | **2,085.9** | **100.0%** | **1.27%** | **1,944.2** | **100.0%** | **1.00%** | **2,032.7** | **100.0%** | **0.82%** | **2,132.1** | **100.0%** | **0.79%** |

*Notes:*

(1) Calculated by dividing NPLs in each type of collateral by total loans in that type of collateral.

(2) Represented the total amount of loans wholly or partly secured by collateral in each category.

(3) Represented security interests in intangible assets or monetary assets, such as movable assets, certificates of deposit, financial instruments, intellectual properties and interests in future cash flows, by taking possession of or registering against such assets.

(4) Represented security interests in tangible assets other than monetary assets, such as buildings and fixtures, land use rights, machines, equipment and vehicles, without taking possession.

(5) The NPL ratio was calculated by dividing the amount of NPL (excluding accrued interest) by total amount of loans (excluding accrued interest). For the purpose of NPL ratio calculation, the NPL ratio of Zhanjiang RCB, our subsidiary, was calculated by the original book value of the loans as of December 31, 2020 and March 31, 2021, respectively, and not the fair value on the combination date. For the purpose of NPL ratio calculation, the NPL ratio of Chaoyang RCB, our subsidiary, was calculated by the original book value of the loans as of December 31, 2020 and March 31, 2021 and not the fair value on the combination date.

The NPL ratio of our guaranteed loans decreased from 1.58% as of December 31, 2018 to 1.21% as of December 31, 2019, and further decreased to 0.82% as of December 31, 2020, mainly due our prudent assessment on the financial position of the loan guarantors in respect of such loan application. The NPL ratio of our guaranteed loans decreased from 0.82% as of December 31, 2020 to 0.79% as of March 31, 2021, primarily due to increase in the total amount of guaranteed loans. Generally, we collect financial statement through pre-loan investigation and evaluate the loan guarantors' financial indicators by reviewing various financial data, so as to understand and evaluate their financial position and conduct credit rating for the loan guarantors through our internal rating system. In addition, when assess financial position of the loan guarantors, we will also take into account the qualification requirement and their guarantee ability based on our internal management policies.

Certain of our corporate loans were cross-guaranteed loans. In respect of cross-guarantee, our Bank generally accepts effective pledge and collaterals as main form of guarantee. To lower the risk of credit business, our Bank normally requests the associated companies or connected persons of the borrowers to assume joint guarantee liability. For borrowers which our Bank deems to have sufficient asset and strong repayment ability after due assessment, our Bank may also accept loans that were solely guarantee by connected persons. For businesses with cross-guarantee, our Bank strictly follows the policy of "separate approval after centralized approval (先統一授信再單項授信)", and credit limits are set for the borrowing groups to lock the risk exposure. During the separate approval procedure, stringent verification of the fixed assets, cash flow and other conditions of the borrowing groups are required. If collaterals are available, the borrowers shall be required to provide collaterals as security to ensure sufficient repayment ability and form of guarantee. Post-loan inspection shall be conducted by the branches according to the prescribed frequency after the provision of loans in order to monitor the operation and repayment conditions of the borrowers. Our Bank proactively takes relevant mitigation measures in respect of businesses with relatively high risks. During the Track Record Period, we had cross-guarantees among our ten largest borrowers. As of December 31, 2019, there were cross-guarantees between two companies among the ten largest borrowers of the Bank: (i) Yan'an Bikang Pharmaceutical Co., Ltd. (the "**Yan'an Bikang**") guaranteed for a loan of RMB631.8 million to its wholly-owned subsidiary, Shanxi Bikang Pharmaceutical Group Holding Co. Ltd. (the "**Shanxi Bikang**"); and (ii) Shanxi Bikang guaranteed for a loan of RMB799.5 million to Yan'an Bikang. There was no cross-guarantees among our ten largest borrowers in 2018, 2020 and the first three months of 2021.

***Ten Largest Non-performing Borrowers***

The following table sets forth our borrowers with the ten largest NPLs balances outstanding as of the dates indicated.

| | As of March 31, 2021 | | | | |
|---|---|---|---|---|---|
| | Industry | Outstanding principal amount | Classification | % of total NPLs | % of net capital |
| | *(in millions of RMB, except percentages)* | | | | |
| Borrower A | Thermal power generation | 333.0 | Doubtful | 15.2% | 0.7% |
| Borrower B | Other unspecified wholesale | 83.4 | Substandard | 3.8% | 0.2% |
| Borrower C | Wholesale of broadcasting and television equipment | 72.5 | Doubtful | 3.3% | 0.2% |
| Borrower D | Wholesale of motorcycles and spare parts | 69.3 | Doubtful | 3.2% | 0.2% |
| Borrower E | Wholesale of building materials | 69.3 | Doubtful | 3.2% | 0.2% |
| Borrower F | Investment and asset management | 56.5 | Doubtful | 2.6% | 0.1% |
| Borrower G | Other unspecified construction | 48.7 | Doubtful | 2.2% | 0.1% |
| Borrower H | Investment and asset management | 48.3 | Doubtful | 2.2% | 0.1% |
| Borrower I | Municipal road engineering construction | 43.5 | Substandard | 2.0% | 0.1% |
| Borrower J | Other real estate construction | 42.2 | Substandard | 1.9% | 0.1% |
| **Total** | | **866.7** | | **39.5%** | **1.9%** |

*Loan Aging Schedule*

The following table sets forth our loan aging schedule as of the dates indicated.

| | As of December 31, | | | | | | As of March 31, | |
|---|---|---|---|---|---|---|---|---|
| | 2018 | | 2019 | | 2020 | | 2021 | |
| | Amount | % of total | Amount | % of total | Amount | % of total | Amount | % of total |
| | *(in millions of RMB, except percentages)* | | | | | | | |
| **Current loans** | 161,135.2 | 98.0% | 202,842.6 | 98.6% | 259,055.3 | 99.1% | 272,773.9 | 98.9% |
| **Loans past due for** | 3,217.6 | 2.0% | 2,984.2 | 1.4% | 2,395.3 | 0.9% | 2,976.7 | 1.1% |
| Up to 3 months(1) | 1,193.9 | 0.7% | 1,283.4 | 0.6% | 846.7 | 0.3% | 1,268.0 | 0.5% |
| Over 3 months up to 6 months(1) | 190.8 | 0.1% | 146.8 | 0.1% | 342.7 | 0.1% | 299.7 | 0.1% |
| Over 6 months up to 1 year(1) | 866.7 | 0.5% | 473.4 | 0.2% | 287.4 | 0.1% | 391.1 | 0.1% |
| Over 1 year up to 3 years(1) | 640.7 | 0.4% | 1,005.3 | 0.5% | 772.7 | 0.3% | 598.1 | 0.2% |
| Over 3 years(1) | 325.5 | 0.2% | 75.3 | 0.0% | 145.8 | 0.1% | 419.8 | 0.2% |
| **Total loans to customers** | **164,352.8** | **100.0%** | **205,826.8** | **100.0%** | **261,450.6** | **100.0%** | **275,750.6** | **100.0%** |

*Note:*

(1) Represented the principal amount of the loans on which principal or interest is overdue. For loans that were repayable in installments, if any portion of the loan was overdue, the total amount of that loan was classified as overdue.

**Allowance for Expected Credit Losses on Loans to Customers**

We assess our loans for impairment, determine a level of allowance for expected credit losses in accordance with the requirements of IFRS 9 during the Track Record Period. Please see "Financial Information — Critical Accounting Estimates and Judgment" and Note 2 to our historical financial information included in the Accountant's Report in Appendix I to this prospectus. Our loans are reported net of impairment allowance on our statements of financial position.

During the Track Record Period, under the requirements of IFRS 9, we classified our customer loans using a "three-stage" model: (i) Stage 1 (Normal Credit Quality) refers to customer loans that have not had a significant increase in credit risk and expected credit losses in the next 12 months will be recognized; (ii) Stage 2 (Significant Increase in Credit Risk) refers to customer loans that have had a significant increase in credit risk and for which the expected credit losses lifetime will be recognized; (iii) Stage 3 (Credit-impaired) refers to customer loans that have objective evidence of impairment and for which the expected credit losses lifetime will be recognized. We have developed a new expected credit loss impairment model in accordance with IFRS 9 to measure the expected credit losses, taking into account various factors such as macroscopic index, macroeconomic indicators and macro-financial scenario analysis.

An expected credit loss is recognized through profits or losses when there is objective evidence that loans are impaired, and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the loans' original effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralized/pledged financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral or pledges. We made full provision for impairment allowance for loans classified as "loss". For loans classified as "substandard" and "doubtful", we generally do not make full provision for impairment allowance and measure impairment allowance as the difference between the carrying amounts and the estimated recoverable amounts of the loans. The estimated recoverable amounts are the present value of the estimated future recoverable cash flows of the loans, including the recoverable value of the collateral or pledges. We believe the measurement of our impairment allowance complies with the Guidelines of Risk-based Classification of Loans (《貸款風險分類指引》) and the requirements under IFRS 9.

For further discussion on expected credit losses on our customer loans, please see "Financial Information — Results of Operations for the Three Months Ended March 31, 2020 and 2021 — Expected Credit Losses and Asset Losses", "Financial Information — Results of Operations for the Years Ended December 31, 2019 and 2020 — Expected Credit Losses and Asset Losses", "Financial Information — Results of Operations for the Years Ended December 31, 2018 and 2019 — Expected Credit Losses and Asset Losses" and Note 12 to our historical financial information included in the Accountant's Report in Appendix I to this prospectus.

***Distribution of Allowance for Expected Credit Losses by Loan Classification***

The following table sets forth the allocation of our allowance for expected credit losses by loan classification category as of the dates indicated.

| | As of December 31, | | | | | | | | | As of March 31, | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2018 | | | 2019 | | | 2020 | | | 2021 | | |
| | Amount | % of total | Allowance to loans[(1)] | Amount | % of total | Allowance to loans[(1)] | Amount | % of total | Allowance to loans[(1)] | Amount | % of total | Allowance to loans[(1)] |
| | *(in millions of RMB, except percentages)* | | | | | | | | | | | |
| Normal | 3,310.7 | 45.9% | 2.1% | 3,376.4 | 46.3% | 1.9% | 3,618.1 | 49.3% | 1.4% | 3,834.2 | 50.2% | 1.5% |
| Special mention | 1,943.6 | 27.0% | 59.9% | 2,180.7 | 29.9% | 54.0% | 2,022.0 | 27.5% | 52.8% | 1,954.9 | 25.5% | 50.5% |
| Substandard | 227.3 | 3.1% | 92.3% | 306.4 | 4.2% | 84.7% | 519.0 | 7.1% | 74.0% | 495.3 | 6.5% | 74.4% |
| Doubtful | 1,624.7 | 22.5% | 92.5% | 1,316.4 | 18.0% | 89.3% | 1,061.9 | 14.5% | 88.2% | 1,212.5 | 15.8% | 91.4% |
| Loss | 105.4 | 1.5% | 126.0% | 114.6 | 1.6% | 125.6% | 119.8 | 1.6% | 126.5% | 155.7 | 2.0% | 123.1% |
| **Total allowance on loans** | **7,211.7** | **100.0%** | **4.4%** | **7,294.5** | **100.0%** | **3.9%** | **7,340.8** | **100.0%** | **3.1%** | **7,652.6** | **100.0%** | **3.0%** |

*Note:*

(1) Calculated by dividing the allowance for expected credit losses on loans (including accrued interest) in each category by the total loans (excluding accrued interest) in that category.

The following table sets forth the allocation of our allowance for expected credit losses by business line and by loan classification category as of the dates indicated.

| | As of December 31, | | | | | | | | | As of March 31, | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2018 | | | 2019 | | | 2020 | | | 2021 | | |
| | Amount | % of total | Allowance to loans(1) | Amount | % of total | Allowance to loans (1) | Amount | % of total | Allowance to loans (1) | Amount | % of total | Allowance to loans(1) |
| | (in millions of RMB, except percentages) | | | | | | | | | | | |
| **Corporate loans** | | | | | | | | | | | | |
| Normal | 2,497.1 | 34.6% | 2.8% | 2,271.2 | 31.1% | 2.3% | 2,831.4 | 38.6% | 2.2% | 3,174.0 | 41.5% | 2.3% |
| Special mention | 1,812.3 | 25.1% | 59.1% | 2,034.4 | 27.9% | 57.0% | 1,826.3 | 24.9% | 49.4% | 1,624.0 | 21.2% | 53.5% |
| Substandard | 184.8 | 2.6% | 95.1% | 198.4 | 2.7% | 86.2% | 230.8 | 3.1% | 78.5% | 261.9 | 3.4% | 82.1% |
| Doubtful | 1,445.9 | 20.0% | 92.2% | 1,192.3 | 16.3% | 89.6% | 789.7 | 10.8% | 89.7% | 861.3 | 11.2% | 93.1% |
| Loss | 21.0 | 0.3% | 103.3% | 22.1 | 0.4% | 100.0% | 1.3 | 0.0% | 100.0% | 4.2 | 0.1% | 100.6% |
| **Subtotal** | **5,961.1** | **82.6%** | **6.2%** | **5,718.4** | **78.4%** | **5.5%** | **5,679.5** | **77.4%** | **4.6%** | **5,925.4** | **77.4%** | **4.4%** |
| **Personal loans** | | | | | | | | | | | | |
| Normal | 813.2 | 11.3% | 1.7% | 1,104.6 | 15.1% | 1.9% | 780.6 | 10.6% | 1.0% | 654.5 | 8.6% | 0.8% |
| Special mention | 131.3 | 1.8% | 72.8% | 146.3 | 2.0% | 33.4% | 195.8 | 2.7% | 30.4% | 330.9 | 4.3% | 38.6% |
| Substandard | 42.5 | 0.6% | 81.6% | 108.0 | 1.5% | 82.2% | 288.2 | 3.9% | 69.7% | 233.4 | 3.1% | 67.0% |
| Doubtful | 178.9 | 2.5% | 95.4% | 124.1 | 1.7% | 87.4% | 272.2 | 3.7% | 84.7% | 351.2 | 4.6% | 87.6% |
| Loss | 84.3 | 1.2% | 133.3% | 92.5 | 1.3% | 133.7% | 118.5 | 1.6% | 126.9% | 151.5 | 1.9% | 123.9% |
| **Subtotal** | **1,250.2** | **17.4%** | **2.5%** | **1,575.5** | **21.6%** | **2.6%** | **1,655.3** | **22.5%** | **1.9%** | **1,721.5** | **22.5%** | **1.8%** |
| **Discounted bills** | | | | | | | | | | | | |
| Normal | 0.2 | — | — | 0.6 | — | — | 6.0 | 0.1% | 0.0% | 5.7 | 0.1% | 0.0% |
| Special mention | 0.2 | — | 0.8% | — | — | — | — | — | — | — | — | — |
| Substandard | — | — | — | — | — | — | — | — | — | — | — | — |
| Doubtful | — | — | — | — | — | — | — | — | — | — | — | — |
| Loss | — | — | — | — | — | — | — | — | — | — | — | — |
| **Subtotal** | **0.4** | — | — | **0.6** | **0.0%** | **0.0%** | **6.0** | **0.1%** | **0.0%** | **5.7** | **0.1%** | **0.0%** |
| **Total allowance on loans** | **7,211.7** | **100.0%** | **4.4%** | **7,294.5** | **100.0%** | **3.9%** | **7,340.8** | **100.0%** | **3.1%** | **7,652.6** | **100.0%** | **3.0%** |

*Note:*

(1) Calculated by dividing the allowance for expected credit losses on loans in each category by gross loans in that category.

***Changes to Allowance for Expected Credit Losses and Asset Losses***

We report net provisions for expected credit losses on loans to customers on our income statement. Please see "Financial Information — Results of Operations for the Three Months Ended March 31, 2020 and 2021 — Expected Credit Losses and Asset Losses", "Financial Information — Results of Operations for the Years Ended December 31, 2019 and 2020 — Expected Credit Losses and Asset Losses" and "Financial Information — Results of Operations for the Years Ended December 31, 2018 and 2019 — Expected Credit Losses and Asset Losses".

The following table sets forth the changes to the allowance for expected credit losses on loans to customers as of the dates and for the years/period indicated.

| | Amount |
|---|---|
| | *(in millions of RMB)* |
| **As of December 31, 2018** | **7,211.7** |
| Newly added for the year | 2,160.1 |
| Derecognition or settlement for the year | (2,012.1) |
| Write-off for the year | (1,144.0) |
| Remeasurement | 1,078.8 |
| **As of December 31, 2019** | **7,294.5** |
| Newly added for the year | 1,821.7 |
| Derecognition or settlement for the year | (3,022.9) |
| Write-off for the year | (786.6) |
| Remeasurement | 2,034.1 |
| **As of December 31, 2020** | **7,340.8** |
| Newly added for the period | 568.8 |
| Derecognition or settlement for the period | (1,241.0) |
| Write-off for the period | — |
| Remeasurement | 984.0 |
| **As of March 31, 2021** | **7,652.6** |

As of December 31, 2019 and 2020 and March 31, 2021, our allowance for expected credit losses on loans to customers amounted to RMB7,294.5 million, RMB7,340.8 million and RMB7,652.6 million, respectively. Our allowance for expected credit losses on loans to customers increased from RMB7,211.7 million as of December 31, 2018 to RMB7,294.5 million as of December 31, 2019 and further increased to RMB7,340.8 million and RMB7,652.6 million as of December 31, 2020 and March 31, 2021, respectively, primarily due to the increase in the balances of loans, in addition to a more proactive risk management strategy implemented by us.

Our allowance to loans ratio decreased from 4.4% as of December 31, 2018 to 3.9% as of December 31, 2019 and further decreased to 3.1% as December 31, 2020. Our allowance to loans ratio decreased to 3.0% as of March 31, 2021. Such continuous decrease was primarily due to the decrease in NPL ratios as of the same dates.

***Distribution of Allowance for Expected Credit Losses by Product Type***

The following table sets forth, the distribution of our allowance for expected credit losses on loans to customers by product type as of the dates indicated.

| | As of December 31, | | | | | | | | | As of March 31, | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2018 | | | 2019 | | | 2020 | | | 2021 | | |
| | Amount | % of total | Allowance to gross loans[1] | Amount | % of total | Allowance to gross loans[1] | Amount | % of total | Allowance to gross loans[1] | Amount | % of total | Allowance to gross loans[1] |
| | *(in millions of RMB, except percentages)* | | | | | | | | | | | |
| **Corporate loans** | | | | | | | | | | | | |
| Working capital loans | 2,875.8 | 39.9% | 6.7% | 2,616.9 | 35.9% | 5.6% | 2,071.5 | 28.2% | 3.8% | 2,426.8 | 31.7% | 4.3% |
| Fixed asset loans | 2,792.8 | 38.7% | 5.4% | 3,025.8 | 41.5% | 5.9% | 3,573.0 | 48.7% | 5.3% | 3,455.0 | 45.1% | 4.6% |
| Others | 292.5 | 4.1% | 21.3% | 72.7 | 1.0% | 0.8% | 35.0 | 0.5% | 0.9% | 43.6 | 0.6% | 0.8% |
| **Subtotal** | **5,961.1** | **82.7%** | **6.2%** | **5,715.4** | **78.4%** | **5.5%** | **5,679.5** | **77.4%** | **4.6%** | **5,925.4** | **77.4%** | **4.4%** |
| **Personal loans** | | | | | | | | | | | | |
| Personal business loans | 421.2 | 5.8% | 4.3% | 360.6 | 4.9% | 3.9% | 438.6 | 6.0% | 2.0% | 449.0 | 5.9% | 1.8% |
| Residential mortgage | 233.6 | 3.2% | 1.0% | 313.3 | 4.3% | 1.1% | 488.3 | 6.7% | 1.5% | 423.6 | 5.5% | 1.3% |
| Credit card balances | 389.7 | 5.4% | 3.6% | 371.2 | 5.1% | 3.5% | 189.8 | 2.6% | 2.3% | 187.0 | 2.4% | 2.5% |
| Personal consumption loans | 205.7 | 2.9% | 3.9% | 530.4 | 7.3% | 3.5% | 538.6 | 7.2% | 2.3% | 661.9 | 8.7% | 2.5% |
| **Subtotal** | **1,250.2** | **17.3%** | **2.5%** | **1,575.5** | **21.6%** | **2.6%** | **1,655.3** | **22.5%** | **1.9%** | **1,721.5** | **22.5%** | **1.8%** |
| **Discounted bills** | | | | | | | | | | | | |
| Bank acceptance bill | 0.4 | 0.0% | 0.0% | 3.6 | 0.0% | 0.0% | 6.0 | 0.1% | 0.0% | 5.7 | 0.1% | 0.0% |
| **Subtotal** | **0.4** | **0.0%** | **0.0%** | **3.6** | **0.0%** | **0.0%** | **6.0** | **0.1%** | **0.0%** | **5.7** | **0.1%** | **0.0%** |
| **Total allowance on loans** | **7,211.7** | **100.0%** | **4.4%** | **7,294.5** | **100.0%** | **3.9%** | **7,340.8** | **100.0%** | **3.1%** | **7,652.6** | **100.0%** | **3.0%** |

*Note:*

(1) Calculated by dividing the allowance for expected credit losses on loans in each category by the total loans and advances in that category.

***Distribution of Allowance for Expected Credit Losses on Corporate Loans by Industry***

The following table sets forth the allowance for expected credit losses on corporate loans by industry as of the dates indicated.

| | As of December 31, | | | | | | | | | As of March 31, | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2018 | | | 2019 | | | 2020 | | | 2021 | | |
| | Amount | % of total | Allowance to gross loans[1] | Amount | % of total | Allowance to gross loans[1] | Amount | % of total | Allowance to gross loans[1] | Amount | % of total | Allowance to gross loans[1] |
| | *(in millions of RMB, except percentages)* | | | | | | | | | | | |
| Wholesale and retail | 1,808.5 | 30.3% | 8.8% | 1,428.0 | 25.0% | 6.4% | 827.7 | 14.6% | 3.7% | 1,128.3 | 19.1% | 4.5% |
| Leasing and commercial services | 1,191.4 | 20.0% | 6.1% | 1,414.0 | 24.7% | 6.3% | 1,757.2 | 30.9% | 7.5% | 1,890.7 | 31.9% | 7.1% |
| Construction | 863.4 | 14.5% | 5.1% | 797.8 | 14.0% | 4.7% | 602.5 | 10.6% | 3.0% | 675.0 | 11.4% | 3.0% |
| Manufacturing | 664.1 | 11.1% | 4.6% | 504.5 | 8.8% | 3.2% | 584.0 | 10.3% | 2.8% | 683.7 | 11.5% | 3.1% |
| Real estate | 216.8 | 3.6% | 2.6% | 385.3 | 6.7% | 4.3% | 603.0 | 10.6% | 5.8% | 505.7 | 8.5% | 4.2% |
| Production and supply of electricity, gas and water | 640.7 | 10.7% | 13.1% | 666.8 | 11.7% | 14.9% | 380.6 | 6.7% | 7.2% | 431.0 | 7.3% | 7.3% |
| Transportation, logistics and postal services | 68.7 | 1.2% | 3.3% | 97.5 | 1.7% | 2.9% | 167.7 | 3.0% | 4.2% | 104.0 | 1.8% | 2.7% |
| Water, environment and public utilities management | 53.3 | 0.9% | 2.6% | 44.8 | 0.8% | 2.5% | 171.3 | 3.0% | 9.2% | 209.1 | 3.5% | 10.0% |
| Health, social security, and welfare | 34.9 | 0.6% | 2.4% | 40.9 | 0.7% | 2.1% | 36.7 | 0.6% | 1.5% | 35.2 | 0.6% | 1.4% |
| Education | 22.5 | 0.4% | 2.3% | 32.7 | 0.6% | 2.2% | 38.2 | 0.7% | 1.9% | 38.0 | 0.6% | 1.7% |
| Information transmission, software and IT services | 43.1 | 0.7% | 4.7% | 21.2 | 0.4% | 3.0% | 12.2 | 0.2% | 1.5% | 17.4 | 0.3% | 1.6% |
| Hotels and catering industries | 187.1 | 3.1% | 20.3% | 189.8 | 3.3% | 16.9% | 39.5 | 0.7% | 3.3% | 34.2 | 0.6% | 3.2% |
| Agriculture, forestry, animal husbandry and fishery | 57.1 | 1.0% | 7.1% | 37.9 | 0.7% | 7.8% | 55.7 | 1.0% | 4.4% | 84.3 | 1.4% | 5.6% |
| Resident services and other services | 21.2 | 0.4% | 2.8% | 13.8 | 0.2% | 2.4% | 5.9 | 0.1% | 1.7% | 6.4 | 0.1% | 1.9% |
| Culture, sports and entertainment | 17.5 | 0.3% | 3.2% | 34.7 | 0.6% | 6.9% | 289.1 | 5.1% | 67.0% | 0.6 | 0.0% | 22.8% |
| Scientific research and technical services, and geological prospecting | 70.4 | 1.2% | 20.2% | 5.5 | 0.1% | 2.0% | 4.3 | 0.1% | 1.7% | 4.0 | 0.1% | 0.9% |
| Mining | 0.2 | 0.0% | 1.4% | 0.1 | 0.0% | 1.5% | 0.1 | 0.0% | 0.0% | 0.0 | 0.0% | 0.0% |
| Public management and social organizations | 0.2 | 0.0% | 1.9% | 0.1 | 0.0% | 1.7% | 0.2 | 0.0% | 1.3% | 0.3 | 0.0% | 1.4% |
| Finance | — | — | — | — | — | — | 103.6 | 1.8% | 1.4% | 77.5 | 1.3% | 1.4% |
| **Total allowance on corporate loans** | **5,961.1** | **100.0%** | **6.2%** | **5,715.4** | **100.0%** | **5.5%** | **5,679.5** | **100.0%** | **4.6%** | **5,925.4** | **100.00%** | **4.4%** |

*Note:*

(1) Calculated by dividing the allowance for expected credit losses on loans in each category by the total loans and advances in that category.

***Distribution of Allowance for Expected Credit Losses by Geographical Region***

The following table sets forth the allocation of our allowance for expected credit losses by geographical region as of the dates indicated.

| | As of December 31, | | | | | | | | | As of March 31, | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2018 | | | 2019 | | | 2020 | | | 2021 | | |
| | Amount | % of total | Allowance to total loan ratio[1] | Amount | % of total | Allowance to total loan ratio[1] | Amount | % of total | Allowance to total loan ratio[1] | Amount | % of total | Allowance to total loan ratio[1] |
| | *(in millions of RMB, except percentages)* | | | | | | | | | | | |
| Dongguan | 6,546.1 | 90.8% | 4.2% | 6,807.1 | 93.3% | 3.6% | 6,583.6 | 89.7% | 3.1% | 6,736.6 | 88.0% | 3.1% |
| Other regions | 665.6 | 9.2% | 7.6% | 487.4 | 6.7% | 6.5% | 757.2 | 10.3% | 3.0% | 916.0 | 12.0% | 2.7% |
| **Total allowance on loans** | **7,211.7** | **100.0%** | **4.4%** | **7,294.5** | **100.0%** | **3.9%** | **7,340.8** | **100.0%** | **3.1%** | **7,652.6** | **100.0%** | **3.0%** |

*Note:*

(1) Calculated by dividing the allowance for expected credit losses on loans in each category by the total loans and advances in that category. The balance of loans and allowance on loans of Zhanjiang RCB, our subsidiary, as of December 31, 2019 and 2020 and March 31, 2021, respectively, used in calculation was the original book value and not the fair value on the combination date. The balance of loans and allowance on loans of Chaoyang RCB, our subsidiary, as of December 31, 2020 and March 31, 2021 used in calculation was the original book value and not the fair value on the combination date. Accordingly, the balances used in calculation differ from the balances set out in this table and the balances set out in the section "Loans and Advances to Customers" in "Assets and Liabilities".

***Distribution of Allowance for Expected Credit Losses by Assessment Methodology***

We adopt IFRS 9 during the Track Record Period. Pursuant to this accounting policy, neither collective nor individual assessment methodologies will be used to assess the allowance for expected credit losses on loans to customers. As of December 31, 2018, 2019 and 2020 and March 31, 2021, our allowance for expected credit losses on loans amounted to RMB7,211.7 million, RMB7,294.5 million, RMB7,340.8 million and RMB7,652.6 million, respectively, with the allowance to total loan ratio of 4.4%, 3.9%, 3.1% and 3.0%, respectively, as of the same dates.

For the years ended December 31, 2018, 2019 and 2020 and for the three months ended March 31, 2021, our allowance to total loan ratio was 4.39%, 3.88%, 3.06% and 2.99%, respectively. The annual decreases in allowance to total loan ratio was attributed to the gradual decreases in our non-performing loans rate from 1.27% on December 31, 2018 to 0.82% on December 31, 2020 and to 0.79% on March 31, 2021, and the continuous optimization of assets quality as a result of our prudent risk prevention and control measures as well as disposal of non-performing loans through comprehensive means such as collection, transfer and write-off.

**Financial Assets Held Under Resale Agreements and Deposits and Placements with Banks and Other Financial Institutions**

Our financial assets held under resale agreements and deposits and placements with banks and other financial institutions include (i) financial assets held under resale agreements, and (ii) deposits and placements with banks and other financial institutions. Financial assets held under resale agreements consist of businesses in which banks, securities, funds, and other counterparties provide us with bonds or bills as pledges, while we provide financial support to them and require them to repay at an agreed time, which is a common financing method. Interbank placement is a short-term financing business conducted by commercial banks through China Foreign Exchange Trading Center and National Interbank Funding Center, which is an online business. Interbank deposits are commercial banks' deposits with and from other banks and non-bank financial institutions, which can generally be categorized as current or fixed deposits. In general, interbank deposits are an offline business where contract terms are agreed by both parties and contracts are signed by both parties.

Our financial assets held under resale agreements and deposits and placements with banks and other financial institutions are assets generated from the financing of our Bank. Such assets usually have maturities within one year, such as one day, seven days or one month as the primary transaction purpose is short-term financing. Other financial assets are mainly assets with fixed income and are mainly held for investment purposes such as trading or held to maturity. Therefore, we categorized our financial assets held under resale agreements and deposits and placements with banks and other financial institutions separately.

Our financial assets held under resale agreements decreased by 44.4% from RMB9,558.0 million as of December 31, 2018 to RMB5,317.7 million as of December 31, 2019. Our financial assets held under resale agreements remained relatively stable as of December 31, 2020, and increased to RMB7,672.1 million as of March 31, 2021, primarily due to increase in our deposits in the first three months of 2021, which enables us to allocate more fund for investment in debt securities held under resale agreements. Our deposits and placements with banks and other financial institutions increased by 190.7% from RMB5,484.2 million as of December 31, 2018 to RMB15,942.1 million as of December 31, 2019 primarily due to our interbank borrowing and lending business with quality financial leasing companies. Such financial assets decreased to RMB13,197.7 million as of December 31, 2020 because we reduced investment in interbank borrowing as it was categorized as non-standard financial assets pursuant to the Regulation on the Recognition of Standard Debt Securities (《標準化債權類資產認定規則》) issued in July 2020. Our deposits and placements with banks and other financial institutions further decreased to RMB11,719.6 million as of March 31, 2021, mainly due to the Bank's disbursement of Internet loans through deposits with interbank and other financial institutions, which lead to the changes in balance.

The following table sets forth a breakdown of our financial assets held under resale agreements and deposits and placements with banks and other financial institutions by the type of counterparties as of the dates indicated.

| | As of December 31, | | | | | | As of March 31, | |
|---|---|---|---|---|---|---|---|---|
| | 2018 | | 2019 | | 2020 | | 2021 | |
| | Amount | % of total | Amount | % of total | Amount | % of total | Amount | % of total |
| | *(in millions of RMB, except percentages)* | | | | | | | |
| Large commercial banks | 2,273.4 | 15.1% | 1,098.7 | 5.2% | 2,068.4 | 11.0% | 447.2 | 2.3% |
| Joint stock commercial banks | 1,186.6 | 7.9% | 5,401.1 | 25.4% | 4,752.3 | 25.4% | 2,112.6 | 10.9% |
| City commercial banks | 4,473.6 | 29.7% | 4,942.1 | 23.2% | 479.3 | 2.6% | 1,426.0 | 7.4% |
| Rural commercial banks | 1,740.1 | 11.6% | 3,093.7 | 14.6% | 1,069.1 | 5.7% | 659.8 | 3.4% |
| Other banks(1) | 3,745.0 | 24.9% | 4,524.1 | 21.3% | 7,846.0 | 41.9% | 7,702.7 | 39.7% |
| Non-banking financial institutions(2) | 1,623.6 | 10.8% | 2,200.1 | 10.3% | 2,525.5 | 13.4% | 7,043.3 | 36.3% |
| **Sub-total** | **15,042.3** | **100.0%** | **21,259.8** | **100.0%** | **18,740.6** | **100.0%** | **19,391.7** | **100.0%** |
| Interest accruals | 21.1 | | 80.7 | | 15.0 | | 10.7 | |
| Impairment loss allowance | (29.8) | | (40.8) | | (48.2) | | (63.5) | |
| **Total** | **15,033.6** | | **21,299.7** | | **18,707.4** | | **19,338.9** | |

*Notes:*

(1) Other banks consist of banks such as foreign banks, rural cooperatives, and county banks.

(2) Non-banking institutions refer to institutions other than banks, generally including funds, securities, and financial leasing companies.

The financial assets held under resale agreements, with which our counterparties were other banks, and deposits and placements with other bank amounted to RMB3,745.0 million, RMB4,524.1 million, RMB7,846.0 million and RMB7,702.7 million as of December 31, 2018, 2019 and 2020 and March 31, 2021, representing 24.9%, 21.3%, 41.9% and 39.7% of the total financial assets held under resale agreements and deposits and placements with banks and other financial institutions as of the same dates. The significant increase in 2020 was due to the increase of interbank foreign currency deposits with foreign banks, which was in turn due to (i) the transfer of interbank borrowing to interbank deposit as interest rate of foreign currencies, particularly U.S. dollars, decreased since March 2020 and (ii) the increase in export proceeds resulted from the recovery of China's foreign trade in the second half of 2020.

The following table sets forth a breakdown of our financial assets held under resale agreements and deposits and placements with banks and other financial institutions as of the dates indicated by credit rating of counterparties.

| | As of December 31, | | | | | | As of March 31, | |
|---|---|---|---|---|---|---|---|---|
| | 2018 | | 2019 | | 2020 | | 2021 | |
| | Amount | % of total | Amount | % of total | Amount | % of total | Amount | % of total |
| | *(in millions of RMB, except percentage)* | | | | | | | |
| AA to AAA | 9,377.6 | 62.3% | 15,880.4 | 74.7% | 12,756.2 | 68.1% | 9,201.2 | 47.5% |
| CCC+ to AA - | 2,491.4 | 16.6% | 886.6 | 4.2% | 1,797.0 | 9.6% | 2,002.6 | 10.3% |
| CCC and below | — | — | — | — | — | — | — | — |
| Unrated[1] | 3,173.3 | 21.1% | 4,492.8 | 21.1% | 4,187.4 | 22.3% | 8,187.9 | 42.2% |
| **Sub-total** | **15,042.3** | **100.0%** | **21,259.8** | **100.0%** | **18,740.6** | **100.0%** | **19,391.7** | **100.0%** |
| Interest accruals | 21.1 | | 80.7 | | 15.0 | | 10.7 | |
| Impairment loss allowance | (29.8) | | (40.8) | | (48.2) | | (63.5) | |
| **Total** | **15,033.6** | | **21,299.7** | | **18,707.4** | | **19,338.9** | |

*Note:*

(1) The unrated counterparts of our financial assets held under resale agreements and deposits and placements with banks and other financial institutions are mainly investment funds. Investment funds do not issue debt securities and no external credit rating is required. The risks of financial assets held under resale agreements and deposits and placements with banks and other financial institutions traded with investment funds are similar to that of the financial assets held under resale agreements and deposits and placements with banks and other financial institutions traded with other financial institutions.

**Financial Assets**

Financial assets represented 46.4%, 42.4%, 41.6% and 40.9% of our total assets as of December 31, 2018, 2019 and 2020 and March 31, 2021, respectively.

***Distribution by Business Model and Cashflow Characteristics***

In accordance with IFRS 9 which we adopted during the Track Record Period, we classify our financial assets by business model and cashflow characteristics of financial assets into the following categories:

(i) financial investments at amortized cost. A financial asset is at amortized cost if it meets both of the following conditions and is not designated as at financial assets at fair value through profit or loss: (a) it is held within a business model whose objective is to hold assets to collect contractual cash flows; and (b) its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Our financial assets at amortized cost primarily comprise debt securities and investment in rights to earnings on credit assets.

(ii) financial assets at fair value through other comprehensive income. A debt investment is at fair value through other comprehensive income if it meets both of the following conditions and is not designated as at financial assets at fair value through profit or loss: (a) it is held within a business model whose objective is set for both collecting contractual cash flows and selling such financial assets; and (b) its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Our financial investments at fair value through other comprehensive income primarily comprised debt securities, rights on earning on credit assets, wealth management products for direct financing and unlisted equity investments.

(iii) financial assets at fair value through profit or loss. All financial assets not classified as at amortized cost or financial assets at fair value through other comprehensive income as described above are financial assets at fair value through profit or loss. Our financial assets at fair value through profit or loss primarily comprise debt securities and investment in fund investments, wealth management products issued by other financial institutions and rights to earnings on credit assets.

The following table sets forth the distribution of our financial assets by business model and cashflow characteristics and credit rating of the counterparties as of the dates indicated. For further details on the components of each category of our financial assets, please see Note 18 of the Accountant's Report in Appendix I to this prospectus.

| | As of December 31, | | | | | | As of March 31, | |
|---|---|---|---|---|---|---|---|---|
| | 2018 | | 2019 | | 2020 | | 2021 | |
| | Amount | % of total | Amount | % of total | Amount | % of total | Amount | % of total |
| | *(in millions of RMB, except percentage)* | | | | | | | |
| Financial investments at amortized cost | **67,979.6** | **36.0%** | **86,869.6** | **44.4%** | **111,667.9** | **49.0%** | **109,770.4** | **47.5%** |
| —AA to AAA | 19,206.7 | 10.2% | 41,067.6 | 21.0% | 42,210.3 | 18.5% | 43,015.7 | 18.6% |
| —CCC+ to AA- | — | — | — | — | 241.6 | 0.1% | 39.9 | 0.0% |
| —CCC and below | — | — | — | — | — | — | — | — |
| —Unrated[(1)] | 48,772.9 | 25.8% | 45,802.0 | 23.4% | 69,216.0 | 30.4% | 66,714.8 | 28.9% |
| Financial investments at fair value through other comprehensive income | **86,043.1** | **45.5%** | **78,350.9** | **40.1%** | **79,943.6** | **35.1%** | **84,139.0** | **36.4%** |
| —AA to AAA | 34,158.6 | 18.1% | 26,363.2 | 13.5% | 19,065.5 | 8.4% | 18,862.7 | 8.2% |
| —CCC+ to AA- | 209.6 | 0.1% | 132.3 | 0.1% | 94.4 | 0.0% | 94.6 | 0.0% |
| —CCC and below | 27.7 | 0.0% | 26.7 | 0.0% | 92.3 | 0.0% | 90.0 | 0.0% |
| —Unrated[(1)] | 51,647.2 | 27.3% | 51,828.7 | 26.5% | 60,691.4 | 26.7% | 65,091.7 | 28.2% |
| Financial assets at fair value through profit or loss | **34,974.7** | **18.5%** | **30,254.8** | **15.5%** | **36,101.6** | **15.9%** | **37,097.2** | **16.1%** |
| —AA to AAA | 8,906.0 | 4.7% | 7,636.4 | 3.9% | 4,885.7 | 2.2% | 4,580.9 | 2.0% |
| —CCC+ to AA- | 340.1 | 0.2% | 20.7 | 0.0% | 198.4 | 0.1% | 347.0 | 0.2% |
| —CCC and below | 6.3 | 0.0% | 23.2 | 0.0% | 1.4 | 0.0% | 1.4 | 0.0% |
| —Unrated[(1)] | 25,722.3 | 13.6% | 22,574.5 | 11.6% | 31,016.1 | 13.6% | 32,167.9 | 13.9% |
| **Financial assets, net** | **188,997.4** | **100.0%** | **195,475.3** | **100.0%** | **227,713.1** | **100.0%** | **231,006.6** | **100.0%** |

*Note:*

(1) Comprise mainly of treasury bonds and local government bonds, financial bonds issued by policy banks, commercial bank bonds, non-bank financial institutions bonds and rights of earnings on credit assets. Such unrated assets are mainly issued by the treasury department of PRC central and local governments and policy banks with relatively lower credit risk.

Our financial investments at amortized cost comprised primarily debt securities and rights to earnings on credit assets. Our financial investments at amortized costs increased from RMB67,979.6 million as of December 31, 2018, to RMB86,869.6 million as of December 31, 2019, primarily due to our increased investments in the debt securities issued by PRC central and local governments and large state-owned enterprises. Our financial investments at amortized costs further increased from RMB86,869.6 million as of December 31, 2019 to RMB111,667.9 million as of December 31, 2020, primarily due to the addition of financial investments at amortized cost upon the consolidation of Chaoyang RCB in 2020. Our financial investments at amortized costs decreased from RMB111,667.9 million as of December 31, 2020 to RMB109,770.4 million as of March 31, 2021, primarily due to the decrease in financial investments at amortized cost of Chaoyang RCB.

Our financial investments at fair value through other comprehensive income primarily comprised debt securities, rights on earning on credit assets, wealth management products for direct financing and unlisted equity investments. Our financial investments at fair value through other comprehensive income decreased from

RMB86,043.1 million as of December 31, 2018 to RMB78,350.9 million as of December 31, 2019, primarily due to maturity of certain investments in debt securities and rights to earnings on credit assets. Our financial investments at fair value through other comprehensive income slightly increased to RMB79,943.6 million as of December 31, 2020, and further increased to RMB84,139.0 million as of March 31, 2021, which was primarily a result of our increased investment in debt securities issued by PRC Government and other financial institutions in alignment with our strategy to improve liquidity management and asset quality. Our financial investments at fair value through other comprehensive income increased from RMB79,943.6 million as of December 31, 2020 to RMB84,139.0 million as of March 31, 2021, primarily due to the increase in investment of debt securities issued by policy banks.

Our financial assets at fair value through profit or loss primarily comprised debt securities, fund investments, wealth management products issued by other financial institutions and rights on earning on credit assets. Our financial assets at fair value through profit or loss amounted to RMB34,974.7 million as of December 31, 2018, primarily a result of our increased investments in certificate of interbank deposits, short-term debt securities issued by PRC corporate issuers and debt securities issued by PRC financial institutions. Our financial assets at fair value through profit or loss decreased to RMB30,254.8 million as of December 31, 2019, primarily due to the maturity of certain investment with relatively short term, and the subsequent reinvestment in financial assets classified under other categories. Our financial assets at fair value through profit or loss increased to RMB36,101.6 million as of December 31, 2020, and further increased to RMB37,097.2 million as of March 31, 2021, primarily due to the increase of investment in public funds, which were publicly raised from public investors. Public funds generally offer flexibility in purchase and/or redemption and can be employed as a form of liquidity management instrument. As such, increase of our investment in public funds when we are in a sound liquidity position is in line with our policy to strengthen management of liquidity.

For details relating to our risk management in connection with our financial assets, please see "Risk Management — Credit Risk Management — Credit Risk Management for Treasury Business".

***Distribution of Investment Securities and Other Financial Assets by Remaining Maturities***

The table below sets forth the distribution of our financial assets by remaining maturities as of the date indicated.

| | As of March 31, 2021 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Overdue | Due within 1 month | Due in less than 3 months | Due in over 3 months up to 12 months | Due in over 1 year up to 5 years | Due in more than 5 years | Undated | Total |
| | *(in millions of RMB, except percentages)* | | | | | | | |
| Financial investments at amortized cost | — | 2,928.6 | 7,871.3 | 16,671.8 | 66,828.6 | 15,470.1 | — | 109,770.4 |
| Financial assets at fair value through other comprehensive income | 372.8 | 1,310.5 | 2,734.7 | 15,032.0 | 39,337.9 | 24,775.9 | 575.2 | 84,139.0 |
| Financial assets at fair value through profit or loss | 1.4 | 735.9 | 1,280.0 | 3,842.7 | 6,264.5 | 2,584.9 | 22,387.8 | 37,097.2 |
| **Total** | **374.2** | **4,975.0** | **11,886.0** | **35,546.5** | **112,431.0** | **42,830.9** | **22,963.0** | **231,006.6** |

***Distribution of Financial Assets by Type of Counterparties***

The following table sets forth a breakdown of our financial assets by the type of counterparties as of the dates indicated.

| | As of December 31, | | | | | | As of March 31, | |
|---|---|---|---|---|---|---|---|---|
| | 2018 | | 2019 | | 2020 | | 2021 | |
| | Amount | % of total | Amount | % of total | Amount | % of total | Amount | % of total |
| | (in millions of RMB, except percentages) | | | | | | | |
| Government authorities and state-owned enterprises | 156,641.1 | 84.3% | 165,933.2 | 86.3% | 194,842.0 | 86.9% | 193,974.1 | 85.4% |
| Private enterprises | 14,814.1 | 8.0% | 7,020.8 | 3.7% | 4,337.2 | 1.9% | 4,235.6 | 1.9% |
| Public enterprises | 9,579.2 | 5.1% | 13,439.9 | 7.0% | 13,994.6 | 6.3% | 16,819.1 | 7.4% |
| Three kind foreign-funded enterprises(1) and overseas enterprises | 4,575.6 | 2.5% | 5,755.5 | 3.0% | 10,884.8 | 4.9% | 11,779.8 | 5.2% |
| Other enterprises | 176.1 | 0.1% | 48.0 | 0.0% | 66.4 | 0.0% | 329.1 | 0.1% |
| **Sub-total** | **185,786.1** | **100.0%** | **192,197.4** | **100.0%** | **224,125.0** | **100.0%** | **227,137.7** | **100.0%** |
| Accrued interest | 2,713.5 | | 2,840.7 | | 3,142.4 | | 3,405.3 | |
| Unlisted equity rights | 612.0 | | 563.2 | | 566.7 | | 575.2 | |
| **Total financial assets, gross** | **189,111.6** | | **195,601.3** | | **227,834.1** | | **231,118.2** | |
| Less: Allowance for expected credit losses | (114.2) | | (126.0) | | (121.0) | | (111.6) | |
| **Total financial assets, net** | **188,997.4** | | **195,475.3** | | **227,713.1** | | **231,006.6** | |

*Note:*

(1) Consists of sino-foreign joint venture enterprise, sino-foreign cooperative enterprise and wholly foreign-owned enterprise that established in the PRC.

***Distribution of Financial Assets by Product Type***

Our financial assets consisted primarily of debt securities, rights to earnings on credit assets, fund investments, wealth management instruments for direct financing and certain other types of financial assets. The following table sets forth the components of our financial assets as of the dates indicated.

| | As of December 31, | | | | | | | | | As of March 31, | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2018 | | | 2019 | | | 2020 | | | 2021 | | |
| | Amount | % of total | Average rate of return[1] | Amount | % of total | average rate of return[1] | Amount | % of total | Average rate of return[1] | Amount | % of total | Average rate of return[1] |
| | (in millions of RMB, except percentages) | | | | | | | | | | | |
| **Standard Credit Assets** | | | | | | | | | | | | |
| Debt securities | 167,140.6 | 89.8% | 4.40% | 173,654.7 | 90.1% | 3.92% | 198,595.1 | 88.4% | 3.46% | 200,165.7 | 87.9% | 3.42% |
| Trust loans | 200.0 | 0.1% | 8.30% | 182.2 | 0.1% | 6.79% | — | — | N/A | — | — | N/A |
| Circulated credit asset items | 10,976.6 | 5.9% | 5.19% | 7,396.4 | 3.8% | 4.37% | — | — | N/A | — | — | N/A |
| Rights to earnings on trusts | 300.0 | 0.2% | 8.50% | 81.7 | 0.0% | 8.50% | — | — | N/A | — | — | N/A |
| Fund investment | 6,423.5 | 3.4% | 6.11% | 10,215.3 | 5.3% | 3.67% | 20,496.9 | 9.1% | 3.45% | 22,358.5 | 9.8% | 2.88% |
| Wealth management instruments for direct financing[2] | 625.2 | 0.3% | 5.55% | 603.9 | 0.3% | 6.15% | — | — | N/A | — | — | N/A |
| Others[3] | 30.0 | 0.0% | 5.03% | 29.3 | 0.0% | 5.03% | — | — | N/A | — | — | N/A |
| **Non-standard Credit Assets[4]** | | | | | | | | | | | | |
| Trust loans | — | — | N/A | — | — | N/A | 147.9 | 0.1% | 6.40% | 247.9 | 0.1% | 6.36% |
| Circulated credit asset items | 90.2 | 0.0% | 6.15% | 33.92 | 0.0% | 6.14% | 3,938.9 | 1.8% | 3.44% | 3,632.8 | 1.6% | 3.50% |
| Rights to earnings on trusts | — | — | N/A | — | — | N/A | 264.0 | 0.1% | 6.52% | 220.0 | 0.1% | 6.03% |
| Pledge-style stock repurchase transaction | — | — | N/A | — | — | N/A | 432.9 | 0.2% | 9.05% | 261.5 | 0.1% | 9.05% |
| Wealth management instruments for direct financing[2] | — | — | N/A | — | — | N/A | 222.0 | 0.1% | 6.53% | 223.4 | 0.1% | 6.53% |
| Others[3] | — | — | N/A | — | — | N/A | 27.3 | 0.0% | 4.05% | 27.9 | 0.0% | 7.67% |
| **Subtotal** | **185,786.1** | **99.7%** | | **192,197.4** | **99.7%** | | **224,125.0** | **99.7%** | | **227,137.7** | **99.7%** | |
| Accrued interest | 2,713.5 | | | 2,840.7 | | | 3,142.4 | | | 3,405.3 | | |
| Unlisted equity rights | 612.0 | 0.3% | | 563.2 | 0.3% | | 566.7 | 0.3% | | 575.2 | 0.3% | |
| **Total financial assets, gross** | **189,111.6** | **100.0%** | | **195,601.3** | **100.0%** | | **227,834.1** | **100.0%** | | **231,118.2** | **100.0%** | |
| Less: Allowance for expected credit losses | (114.2) | | | (126.0) | | | (121.0) | | | (111.6) | | |
| **Total financial assets, net** | **188,997.4** | | | **195,475.3** | | | **227,713.1** | | | **231,006.6** | | |

*Notes:*

(1) Calculated by weighted average of yield to maturity of each category.

(2) Refers to debt investment instruments of wealth management products, which are launched and managed by commercial banks and other banking financial institutions, and directly invest in the financing needs of enterprises.

(3) Refers to the "Jinmeihua Phase VII Joint Investment Project" managed by Bank of Nanjing Co., Ltd. ("Nanjing Jinmeihua Phase VII"), which was invested by our Bank and other investors, from July 2013 with the maturity period of 10 years and redeemable for every six months. The underlying assets of Nanjing Jinmeihua Phase VII are bonds, interbank deposits and others, and our investment represents 1.1% of the total issuance of Nanjing Jinmeihua Phase VII.

(4) Our Bank's non-standard credit assets mainly consist of trust loans, circulated credit asset items, rights to earnings on trusts and pledge-style stock repurchase transaction. Most of our Bank's non-standard credit assets were invested in the finance industry.

Our non-standard credit assets increased significantly from RMB33.9 million as of December 31, 2019 to RMB5,033.0 million as of December 31, 2020 and slightly decreased to RMB4,613.5 million as of March 31, 2021, primarily due to the implementation of the Regulation on the Recognition of Standardized Debt Assets (《標準化債權類資產認定規則》) issued by the PBoC, CBIRC, CSRC and SAFE on July 3, 2020, which categorized certain credit assets and rights to earnings of credit assets that previously deemed to be standard credit assets to be non-standard credit assets. The rights to earnings on credit assets we purchased in Chaoyang RCB acquisition in December 2020 as well as our investments in trust loans, circulated credit asset items, rights to earnings on trusts, pledge-style stock repurchase transaction and credit financing plans were categorized as non-standard credit assets pursuant to the Recognition of Standardized Debt Assets.

*Debt Securities*

Debt securities was the largest component of our financial investments, representing 89.8%, 90.1%, 88.4% 87.9% of our total gross financial assets as of December 31, 2018, 2019 and 2020 and March 31, 2021, respectively. We invest in debt securities issued by the central and local governments, financial institutions and corporate issuers in the PRC and interbank certificates of deposits issued by commercial banks in the PRC. We make investments in debt securities through asset management plans offered by third parties, which amounted to RMB12,638.2 million, RMB3,717.9 million, RMB553.8 million and RMB189.1 million as of December 31, 2018, 2019 and 2020 and March 31, 2021, respectively, representing 7.6%, 2.1%, 0.3% and 0.1% of our total debt securities amount as of the same dates. For most of the investments in debt securities through asset management plans, our Bank, as the major investor, is able to identify the underlying assets of the asset management plans so that each of the debt securities under such plans are accounted and managed separately. All of the investments in debt securities we held as of December 31, 2018, 2019 and 2020 and March 31, 2021 were denominated in Renminbi. The following table sets forth the components of our debt securities investment classified by issuer as of the dates indicated.

| | As of December 31, | | | | | | As of March 31, | |
|---|---|---|---|---|---|---|---|---|
| | 2018 | | 2019 | | 2020 | | 2021 | |
| | Amount | % of total | Amount | % of total | Amount | % of total | Amount | % of total |
| | *(in millions of RMB, except percentages)* | | | | | | | |
| Debt securities issued by the PRC central government | 36,075.3 | 21.6% | 37,168.8 | 21.4% | 58,374.8 | 29.4% | 52,269.7 | 26.1% |
| Debt securities issued by the local government | 34,301.3 | 20.5% | 55,790.2 | 32.1% | 66,941.8 | 33.7% | 70,458.1 | 35.2% |
| Debt securities issued by policy banks(1) | 8,105.5 | 4.8% | 17,658.1 | 10.3% | 28,409.3 | 14.4% | 31,389.3 | 15.9% |
| Debt securities issued by commercial banks | 1,834.3 | 1.1% | 1,918.3 | 1.0% | 4,775.5 | 2.4% | 9,713.9 | 4.7% |
| Debt securities issued by securities companies | 40.9 | 0.0% | 283.4 | 0.2% | 38.0 | 0.0% | 98.0 | 0.0% |
| Debt securities issued by financial leasing companies | 10,380.1 | 6.2% | 5,735.7 | 3.3% | 2,140.1 | 1.1% | 1,662.8 | 0.8% |
| Debt securities issued by other financial institutions | 6,419.1 | 3.8% | 1,794.2 | 1.0% | 1,129.7 | 0.6% | 1,003.9 | 0.5% |
| Debt securities issued by the PRC corporate issuers | 63,108.3 | 37.8% | 44,479.8 | 25.6% | 27,232.2 | 13.7% | 24,099.7 | 12.0% |
| Interbank certificates of deposits | 6,875.7 | 4.1% | 8,826.2 | 5.1% | 9,553.7 | 4.8% | 9,470.3 | 4.8% |
| **Total debt securities(2)** | **167,140.6** | **100.0%** | **173,654.7** | **100.0%** | **198,595.1** | **100.0%** | **200,165.7** | **100.0%** |

*Notes:*

(1) Policy banks refer to China Development Bank, Export and Import Bank of China and Agricultural Development Bank of China.

(2) Including debt securities investments through asset management plans.

Our holding of investment in debt securities increased by 3.9% from RMB167,140.6 million as of December 31, 2018 to RMB173,654.7 million as of December 31, 2019, and further increased by 14.4% to

RMB198,595.1 million as of December 31, 2020 primarily due to available funds for investment in debt securities increased as deposits from customers increased. Our holding of investment in debt securities remained relatively stable of RMB200,165.7 million as of March 31, 2021 as compared with that of RMB198,595.1 million as of December 31, 2020, and the slight increase was in line with our business expansion.

During the Track Record Period, investment in debt securities issued by the PRC central and local government were the largest component of our debt securities investment portfolio, representing 42.1%, 53.5%, 63.1% and 61.3% of our total debt securities investment portfolio as of December 31, 2018, 2019 and 2020 and March 31, 2021, respectively. Our holding of debt securities issued by the PRC central and local government increased by 32.1% from RMB70,376.6 million as of December 31, 2018 to RMB92,959.0 million as of December 31, 2019 and further increased by 34.8% to RMB125,316.6 million as of December 31, 2020, primarily due to our increased investments in debt securities issued by the PRC central and local government which generally have good liquidity and low risks that is in line with our strict liquidity risk management policies and prudent investment policies. Our debt securities issued by the PRC central and local government decreased by 2.1% from RMB125,316.6 million as of December 31, 2020 to RMB122,727.8 million as of March 31, 2021, primarily due to maturity of such debt securities.

Debt securities issued by the PRC corporate issuers decreased by 29.5% from RMB63,108.3 million as of December 31, 2018 to RMB44,479.8 million as of December 31, 2019 and further decreased by 38.8% to RMB27,232.2 million as of December 31, 2020. Our debt securities issued by the PRC corporate issuers decreased to RMB24,099.7 million as of March 31, 2021. Such continuous decrease is primarily because our Bank implemented more stringent policies on credit risk management, reduced investments in non-financial corporate bonds and sold non-financial corporate bonds as appropriate.

Debt securities issued by financial institutions amounted to RMB27,389.7 million as of December 31, 2019 and was relatively stable when compared with that of December 31, 2018, and increased by 33.2% to RMB36,492.6 million as of December 31, 2020, which further increased by 20.2% to RMB43,867.9 million as of March 31, 2021. Such increase was primarily a result of more investments in debt securities issued by policy banks and good rating commercial banks so as to manage credit risk as well as maintain investment return. Debt securities issued by policy banks amounted to RMB8,105.5 million, RMB17,658.1 million, RMB28,409.3 million and RMB31,389.3 million as of December 31, 2018, 2019 and 2020 and March 31, 2021, respectively. Policy banks are non-profit financial institutions founded by the government, and our debt securities issued by policy banks mainly include debt securities issued by China Development Bank, Export and Import Bank of China and Agricultural Development Bank of China.

The following table sets forth the distribution of our debt securities investment by nature and facility rating as of the date indicated.

| | As of December 31, | | | | | | As of March 31, | |
|---|---|---|---|---|---|---|---|---|
| | 2018 | | 2019 | | 2020 | | 2021 | |
| | Amount | % of total | Amount | % of total | Amount | % of total | Amount | % of total |
| | *(in million of RMB, except percentage)* | | | | | | | |
| AA to AAA | 61,323.1 | 36.7% | 59,427.5 | 34.2% | 63,643.5 | 32.1% | 90,946.7 | 45.5% |
| CCC+ to AA- | 543.7 | 0.3% | 114.8 | 0.1% | 539.3 | 0.3% | 1,069.2 | 0.5% |
| CCC and below | 21.8 | 0.0% | 40.2 | 0.0% | 74.3 | 0.0% | 76.8 | 0.0% |
| Unrated(1) | 105,252.0 | 63.0% | 114,072.2 | 65.7% | 134,338.0 | 67.6% | 108,073.0 | 54.0% |
| **Total debt securities, gross** | **167,140.6** | **100.0%** | **173,654.7** | **100.0%** | **198,595.1** | **100.0%** | **200,165.7** | **100.0%** |

*Note:*

(1) Comprise mainly of treasury bonds and local government bonds, financial bonds issued by policy banks, commercial bank bonds, non-bank financial institutions bonds and rights of earnings on credit assets. Such unrated assets are mainly issued by the treasury department of PRC central and local governments and policy banks with relatively lower credit risk.

The following table sets forth the balance of our debt securities portfolio by remaining maturity as of March 31, 2021.

| | As of March 31, 2021 | | | | |
|---|---|---|---|---|---|
| | Due within 3 months | Due in 3 months up to 12 months | Due in over 1 year up to 5 years | Due in more than 5 years | Total |
| | *(in millions of RMB)* | | | | |
| Debt securities issued by PRC central and local government | 9,544.8 | 18,038.1 | 65,027.5 | 30,117.4 | 122,727.8 |
| Debt securities issued by commercial banks and other financial institutions | 554.3 | 2,177.5 | 32,827.6 | 8,308.5 | 43,867.9 |
| Debt securities issued by PRC corporate issuers | 2,953.9 | 6,529.8 | 14,307.2 | 308.8 | 24,099.7 |
| Interbank certificates of deposits | 3,895.0 | 3,835.0 | 1,740.3 | — | 9,470.3 |
| **Total debt securities, gross** | **16,948.0** | **30,580.4** | **113,902.6** | **38,734.7** | **200,165.7** |

The following table sets forth breakdown of our debt securities between fixed interest rates and floating interest rates as of the dates indicated.

| | As of December 31, | | | | | | As of March 31, | |
|---|---|---|---|---|---|---|---|---|
| | 2018 | | 2019 | | 2020 | | 2021 | |
| | Amount | % of total | Amount | % of total | Amount | % of total | Amount | % of total |
| | *(in millions of RMB, except percentages)* | | | | | | | |
| Fixed interest rate | 147,032.7 | 88.0% | 160,466.0 | 92.4% | 192,454.6 | 96.9% | 196,077.4 | 98.0% |
| Floating interest rate | 20,107.9 | 12.0% | 13,188.7 | 7.6% | 6,140.5 | 3.1% | 4,088.3 | 2.0% |
| **Total debt securities** | **167,140.6** | **100.0%** | **173,654.7** | **100.0%** | **198,595.1** | **100.0%** | **200,165.7** | **100.0%** |

For debt securities investment, the investment targets of our Bank normally include treasury bonds, policy financial bonds and bonds without sovereign credit ratings. Non-sovereign bonds refer to marketable securities issued by financial and non-financial enterprises and institutions other than the central governments, central banks and policy banks. For local government bonds, we mainly consider the GNP, treasury income and permanent residents of the relevant regions, external credit ratings and credit events of the local governments and other relevant factors. For other non-sovereign bonds, we will consider various factors including the operating condition of the issuer, development prospect of the industry in which the issuer operates and the regional economic condition to evaluate the credit risk of the issuer and review the internal credit limits for the bondholders.

*Rights to Earnings on Credit Assets*

The following table sets forth the distribution of our rights to earnings on credit assets by nature as of the dates indicated.

| | As of December 31, | | | | | | As of March 31, | |
|---|---|---|---|---|---|---|---|---|
| | 2018 | | 2019 | | 2020 | | 2021 | |
| | Amount | % of total | Amount | % of total | Amount | % of total | Amount | % of total |
| | *(in millions of RMB, except percentage)* | | | | | | | |
| Financial investments at amortized cost | 6,384.9 | 55.2% | 3,969.6 | 51.6% | 902.6 | 18.9% | 654.5 | 15.1% |
| Financial assets measured fair value through other comprehensive income | 936.4 | 8.1% | 594.3 | 7.7% | 446.3 | 9.3% | 272.6 | 6.2% |
| Financial assets at fair value through profit or loss | 4,245.5 | 36.7% | 3,130.3 | 40.7% | 3,434.8 | 71.8% | 3,435.1 | 78.7% |
| **Total rights to earnings on credit assets** | **11,566.8** | **100.0%** | **7,694.2** | **100.0%** | **4,783.7** | **100.0%** | **4,362.2** | **100.0%** |

During the Track Record Period, rights to earnings on credit assets we invested mainly consisted of circulated credit asset products (信貸資產流轉產品), of which the assigning party entrusts the trust companies as the trustee of the investment and transfers the underlying assets to investors directly or through the China Credit Asset Registry and Exchange Co., Ltd., Guangdong Financial Assets Exchange and other platforms. Underlying basic assets in such rights to earnings on credit assets primarily include leasing assets, personal consumption loans, automobile loans and credit loans. Our holding in rights to earnings on credit assets represented 6.2%, 4.0%, 2.1% and 1.9% of our total financial assets as of December 31, 2018, 2019 and 2020 and March 31, 2021, respectively. Our holding of rights to earnings on credit assets decreased by 33.5% from RMB11,566.8 million as of December 31, 2018 to RMB7,694.2 million as of December 31, 2019, primarily due to the fact that certain of our rights to earnings on credit assets have matured and we have raised the qualification criteria of this product. Our holding of rights to earnings on credit assets further decreased by 37.8% to RMB4,783.7 million as of December 31, 2020, which was primarily because we adjusted investment portfolio and reduced investment in rights to earnings on credit asset in accordance with our investment strategy, risk appetite, risk management and the regulatory policies such as Regulation on the Recognition of Standard Debt Securities (《標準化債權類資產認定規則》) issued in July 2020, which classified rights to earnings on credit assets as non-standard assets. Our holding of rights to earnings on credit assets decreased by 8.8% to RMB4,362.2 million as of March 31, 2021, primarily due to maturity of certain rights to earnings on credit assets.

For investment in rights to earnings on credit assets, we mainly consider the financial positions and qualifications of transferors, and guarantors for shortfall payment, distribution of industries and regions of assets underlying the projects and the asset maturity profile of the asset pools of the projects. The initial beneficiary, also known as promoter, refers to the assigning party of assets, including but not limited to banks, financial leasing companies, securities companies, financial companies and other financial institutions. The initial beneficiary entrusts assets to the trustee who will establish rights on earnings on credit assets. The initial beneficiary undertakes its committed obligations and responsibilities under relevant contracts and legal documents. The guarantor for shortfall payment refers to the credit enhancer, including but not limited to the initial beneficiary, controlling shareholders of the initial beneficiary, insurance institutions and others. The guarantor for shortfall payment irrevocably and unconditionally undertakes to the trustee to cover the shortfall of the asset-backed product projects for payment of the corresponding taxes, trust fees and the expected income and outstanding principal balance of each period of the senior asset-backed products. Unless shortfall payment was guaranteed by the initial beneficiary, our Bank does not have recourses to the initial beneficiary in the event that the borrower defaults. During the Track Record Period, no borrowers defaults incurred for our rights to earnings on credit assets for the years ended December 31, 2018 and 2019, while the balance of our rights to earnings on credit assets that sustained borrower defaults was RMB446.2 million and RMB272.6 million as of December 31, 2020 and March 31, 2021, respectively. As of the same dates, we have made impairment allowances for such rights to earnings on credit assets of RMB294.7 million and RMB463.7 million, respectively. Our Bank continuously monitors the credit risk of the products and may make disposal decision through our internal risk management procedures.

*Fund Investments*

As of December 31, 2018, December 31, 2019, December 31, 2020 and March 31, 2021, our fund investments amounted to RMB6,423.5 million, RMB10,215.3 million, RMB20,496.9 million and RMB22,358.5 million, respectively. Our holding of funds represented 3.4%, 5.3%, 9.1% and 9.8% of our total financial assets as of December 31, 2018, 2019 and 2020 and March 31, 2021, respectively.

For fund investment we mainly consider the size of assets under management, operation, market position and other factors of the relevant companies.

***Investment Concentration***

The table below sets forth the our ten largest holdings of financial investments as of the date indicated.

| | As of March 31, 2021 | | | | | |
|---|---|---|---|---|---|---|
| | **Type of financial investment** | **Principal place** | **Carrying value** | **% of total financial investments** | **% of total shareholders' equity** | **% of net capital** |
| | *(in millions of RMB, except percentages)* | | | | | |
| Issuer A | Debt securities | Beijing | 52,269.7 | 22.6% | 129.6% | 113.2% |
| Issuer B | Debt securities | Beijing | 19,398.2 | 8.4% | 48.1% | 42.0% |
| Issuer C | Debt securities | Guangdong | 10,680.2 | 4.6% | 26.5% | 23.1% |
| Issuer D | Fund | Guangdong | 6,592.6 | 2.9% | 16.4% | 14.3% |
| Issuer E | Debt securities | Shandong | 6,016.7 | 2.6% | 14.9% | 13.0% |
| Issuer F | Debt securities | Beijing | 6,341.2 | 2.7% | 15.7% | 13.7% |
| Issuer G | Debt securities | Hubei | 3,723.4 | 1.6% | 9.2% | 8.1% |
| Issuer H | Debt securities | Beijing | 5,700.8 | 2.5% | 14.1% | 12.4% |
| Issuer I | Debt securities | Yunnan | 3,519.6 | 1.5% | 8.7% | 7.6% |
| Issuer J | Debt securities | Guizhou | 3,260.2 | 1.4% | 8.1% | 7.1% |
| **Total** | | | **117,502.6** | **50.8%** | **291.3%** | **254.5%** |

*Concentration of Investment in Rights to Earnings on Credit Assets*

As of December 31, 2018, 2019 and 2020 and March 31, 2021, the five largest rights to earnings on credit assets accounted for 59.7%, 66.2%, 78.1% and 85.0% of our total investment in rights to earnings on credit assets, respectively.

The following table sets forth our five largest promoters of rights to earnings on credit assets as of each date indicated.

| | As of December 31, 2018 | | | | |
|---|---|---|---|---|---|
| | **Nature** | **Principal operation place** | **Total assets[(1)]** | **Amount** | **% of investment in rights to earnings on credit assets** |
| | *(in millions of RMB, except percentages)* | | | | |
| Rights to earnings on credit assets promoter A . . . . . | City commercial bank | Zhejiang | 1,116,423.4 | 2,736.2 | 23.7% |
| Rights to earnings on credit assets promoter B . . . . . | Other bank | Zhejiang | 95,864.1 | 1,556.7 | 13.5% |
| Rights to earnings on credit assets promoter C . . . . . | Joint-stock bank | Guangdong | 6,745,729.0 | 1,045.5 | 9.0% |
| Rights to earnings on credit assets promoter D . . . . . | Joint-stock bank | Beijing | 6,066,714.0 | 869.1 | 7.5% |
| Rights to earnings on credit assets promoter E . . . . . | City commercial bank | Zhejiang | 168,561.6 | 696.8 | 6.0% |
| **Total** . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . | | | | **6,904.3** | **59.7%** |

*Note:*

(1) Source: annual report for the year ended December 31, 2018.

| | As of December 31, 2019 | | | | |
|---|---|---|---|---|---|
| | Nature | Principal operation place | Total assets(2) | Amount | % of investment in rights to earnings on credit assets |
| | (in millions of RMB, except percentages) | | | | |
| Rights to earnings on credit assets promoter B | Other bank | Zhejiang | 139,552.8 | 1,521.5 | 19.8% |
| Rights to earnings on credit assets promoter A | City commercial bank | Zhejiang | 1,317,717.1 | 1,356.3 | 17.6% |
| Rights to earnings on credit assets promoter F | Other bank | Guangdong | 291,235.6 | 886.4 | 11.5% |
| Rights to earnings on credit assets promoter E | City commercial bank | Zhejiang | 207,775.5 | 778.1 | 10.1% |
| Rights to earnings on credit assets promoter G | Joint-stock bank | Beijing | 4,733,431.0 | 555.9 | 7.2% |
| **Total** | | | | **5,098.2** | **66.2%** |

*Note:*

(2) Source: annual report for the year ended December 31, 2019.

| | As of December 31, 2020 | | | | |
|---|---|---|---|---|---|
| | Nature | Principal operation place | Total assets newly disclosed(3) | Amount | % of investment in rights to earnings on credit assets |
| | (in millions of RMB, except percentages) | | | | |
| Rights to earnings on credit assets promoter H | RCB | Guangdong | 20,415.6 | 1,545.4 | 32.3% |
| Rights to earnings on credit assets promoter B | Other bank | Zhejiang | 295,080.0 | 1,010.9 | 21.1% |
| Rights to earnings on credit assets promoter I | Non-bank financial institution | Guangdong | 11,241.0 | 770.3 | 16.1% |
| Rights to earnings on credit assets promoter F | Other bank | Guangdong | 291,235.6 | 223.9 | 4.7% |
| Rights to earnings on credit assets promoter E | City commercial bank | Zhejiang | 224,283.5 | 188.1 | 3.9% |
| **Total** | | | | **3,738.6** | **78.1%** |

*Note:*

(3) Source: annual report for the year ended December 31, 2020.

| | As of March 31, 2021 | | | | |
|---|---|---|---|---|---|
| | Nature | Principal operation place | Total assets newly disclosed(4) | Amount | % of investment in rights to earnings on credit assets |
| | (in millions of RMB, except percentages) | | | | |
| Rights to earnings on credit assets promoter H | RCB | Guangdong | 20,415.6 | 1,574.7 | 36.1% |
| Rights to earnings on credit assets promoter B | Other bank | Zhejiang | 311,256.0 | 1,020.0 | 23.4% |
| Rights to earnings on credit assets promoter I | Non-bank financial institution | Guangdong | 11,241.0 | 770.3 | 17.7% |
| Rights to earnings on credit assets promoter F | Other bank | Guangdong | 346,430.0 | 191.6 | 4.4% |
| Rights to earnings on credit assets promoter S | State-owned enterprise | Nanjing | 43,877.9 | 147.9 | 3.4% |
| **Total** | | | | **3,704.5** | **85.0%** |

*Note:*

(4) Source: the latest quarterly reports or annual reports of initial beneficiaries.

*Concentration of Fund Investments*

The following table sets forth our five largest managers of the funds invested by us as of each date indicated.

| | As of December 31, 2018 | | | | | |
|---|---|---|---|---|---|---|
| | Incorporation date | Asset under management | Ranking(1) | Total assets(1) | Investment amount | % of investment in fund investments |
| | (in millions of RMB, except percentages) | | | | | |
| Fund manager A ...... | July 13, 1998 | 560,015.39 | 6 | 6,713.0 | 3,367.2 | 52.4% |
| Fund manager B ...... | December 25, 2002 | 60,109.22 | 46 | 883.0 | 2,550.1 | 39.7% |
| Fund manager C ...... | August 5, 2003 | 468,427.64 | 7 | 7,778.5 | 506.2 | 7.9% |
| **Total** ............... | | | | | **6,423.5** | **100.0%** |

*Note:*

(1) Source: ranking of fund managers by Wind in terms of assets under management as of December 31, 2018.

| | As of December 31, 2019 | | | | | |
|---|---|---|---|---|---|---|
| | Incorporation date | Asset under management | Ranking(1) | Total assets(1) | Investment amount | % of investment in fund investments |
| | (in millions of RMB, except percentages) | | | | | |
| Fund manager A ...... | July 13, 1998 | 627,936.07 | 4 | 7,396.4 | 3,795.8 | 37.2% |
| Fund manager D ...... | December 22, 1998 | 384,918.36 | 12 | 4,224.8 | 1,102.5 | 10.8% |
| Fund manager E ...... | March 25, 1999 | 535,078.08 | 8 | N/A | 1,002.5 | 9.8% |
| Fund manager F ...... | April 17, 2001 | 730,856.85 | 2 | 14,675.4 | 922.0 | 9.0% |
| Fund manager G ...... | May 28, 2001 | 300,501.69 | 18 | 3,907.4 | 660.7 | 6.5% |
| **Total** .............. | | | | | **7,483.6** | **73.3%** |

*Note:*

(1) Source: ranking of fund managers by Wind in terms of assets under management as of December 31, 2019.

| | As of December 31, 2020 | | | | | |
|---|---|---|---|---|---|---|
| | Incorporation date | Asset under management | Ranking(1) | Total assets(1) | Investment amount | % of investment in fund investments |
| | (in millions of RMB, except percentages) | | | | | |
| Fund manager A .... | July 13, 1998 | 721,963.81 | 7 | 8,859.2 | 6,532.5 | 31.9% |
| Fund manager H .... | June 13, 2002 | 110,216.85 | 43 | N/A | 1,757.1 | 8.6% |
| Fund manager I .... | July 9, 2014 | 43,680.59 | 70 | 1,314.0 | 990.5 | 4.8% |
| Fund manager J .... | August 12, 2004 | 357,194.57 | 21 | 5,184.0 | 906.0 | 4.4% |
| Fund manager K .... | August 4, 2005 | 339,811.59 | 22 | 6,018.0 | 804.5 | 3.9% |
| **Total** ............ | | | | | **10,990.6** | **53.6%** |

*Note:*

(1) Source: ranking of fund managers by Wind in terms of assets under management as of December 31, 2020.

| | As of March 31, 2021 | | | | | |
|---|---|---|---|---|---|---|
| | Incorporation date | Asset under management | Ranking[(1)] | Total assets[(1)] | Investment amount | % of investment in fund investments |
| | *(in millions of RMB, except percentages)* | | | | | |
| Fund manager A . . . . | July 13, 1998 | 850,271.75 | 7 | 8,859.2 | 6,592.6 | 29.5% |
| Fund manager H . . . . | June 13, 2002 | 109,822.02 | 44 | N/A | 1,519.6 | 6.8% |
| Fund manager E . . . . . | March 25, 1999 | 762,144.98 | 8 | N/A | 1,315.7 | 5.9% |
| Fund manager L . . . . . | April 9, 1998 | 860,551.37 | 6 | 13,694.6 | 1,256.0 | 5.6% |
| Fund manager C . . . . | August 5, 2003 | 956,074.34 | 3 | 12,520.4 | 1,160.3 | 5.2% |
| **Total** . . . . . . . . . . . . . | | | | | **11,844.2** | **53.0%** |

*Note:*

(1) Source: ranking of fund managers by Wind in terms of assets under management as of March 31, 2021.

*Concentration of Wealth Management Instruments for Direct Financing*

The following table sets forth our five largest issuers of the wealth management instruments for direct financing invested by us as of each date indicated.

| | As of December 31, 2018 | | | | |
|---|---|---|---|---|---|
| | Principal operation place | Total asset[(1)] | Net asset[(1)] | Investment amount | % of investment in wealth management instruments for direct financing |
| | *(in millions of RMB, except percentages)* | | | | |
| Issuer A . . . . . . . . . . . . | Beijing | 25,414.4 | 9,214.7 | 200.1 | 32.0% |
| Issuer B . . . . . . . . . . . . | Henan | 37,042.4 | 18,020.2 | 190.0 | 30.4% |
| Issuer C . . . . . . . . . . . . | Jiangsu | 36,902.3 | 12,564.8 | 70.0 | 11.2% |
| Issuer D . . . . . . . . . . . . | Zhejiang | 67,865.2 | 25,687.8 | 50.0 | 8.0% |
| Issuer E . . . . . . . . . . . . | Tianjin | 39,384.3 | 14,213.0 | 50.0 | 8.0% |

| | As of December 31, 2019 | | | | |
|---|---|---|---|---|---|
| | Principal operation place | Total asset[(2)] | Net asset[(2)] | Investment amount | % of investment in wealth management instruments for direct financing |
| | *(in millions of RMB, except percentages)* | | | | |
| Issuer F . . . . . . . . . . . | Tianjin | 199,366.0 | 80,347.5 | 102.2 | 16.9% |
| Issuer G . . . . . . . . . . . | Hunan | 74,191.4 | 15,629.3 | 82.0 | 13.6% |
| Issuer H . . . . . . . . . . . | Jiangsu | 41,482.2 | 14,495.6 | 80.1 | 13.3% |
| Issuer I . . . . . . . . . . . . | Sichuan | 128,637.4 | 47,420.7 | 72.2 | 12.0% |
| Issuer J . . . . . . . . . . . . | Jiangsu | 37,190.0 | 8,879.4 | 62.7 | 10.4% |

| | As of December 31, 2020 | | | | |
|---|---|---|---|---|---|
| | Principal operation place | Total asset[(3)] | Net asset[(3)] | Investment amount | % of investment in wealth management instruments for direct financing |
| | *(in millions of RMB, except percentages)* | | | | |
| Issuer K . . . . . . . . . . . | Jiangxi | 100,920.3 | 35,772.2 | 120.0 | 54.1% |
| Issuer L . . . . . . . . . . . | Shandong | 83,626.6 | 25,963.7 | 82.0 | 36.9% |
| Issuer M . . . . . . . . . . . | Henan | 74,022.9 | 24,087.8 | 20.0 | 9.0% |

| | As of March 31, 2021 | | | | |
|---|---|---|---|---|---|
| | Principal operation place | Total asset(4) | Net asset(4) | Investment amount | % of investment in wealth management instruments for direct financing |
| | (in millions of RMB, except percentages) | | | | |
| Issuer K | Jiangxi | 103,494.3 | 36,086.7 | 121.0 | 54.2% |
| Issuer L | Shandong | 88,962.2 | 27,723.8 | 82.5 | 36.9% |
| Issuer M | Henan | 75,832.6 | 24,307.8 | 19.9 | 8.9% |

*Notes:*

(1) Source: annual report for the year ended December 31, 2018 published by the issuer.

(2) Source: annual report for the year ended December 31, 2019 published by the issuer.

(3) Source: annual report for the year ended December 31, 2020 published by the issuer.

(4) Source: the latest quarterly report or annual report published by the issuer.

**Other Components of Our Assets**

Other components of our assets consisted primarily of (i) cash and balances with central banks, (ii) deferred tax assets, (iii) fixed assets, and (iv) other assets.

Cash and balances with central banks consisted primarily of cash, statutory deposit reserves and surplus deposit reserves. Statutory deposit reserves represented the minimum level of cash deposits that we are required to maintain with PBoC. The minimum level was determined as a percentage of our deposits from customers. For details of changes in statutory deposit reserve ratio, please see “Supervision and Regulation — Statutory Deposit Reserve”. Surplus deposit reserves are deposits with PBoC in excess of statutory deposit reserves which we maintain for clearing purposes. Our cash and deposits with central banks decreased by 1.8% from RMB40,296.9 million as of December 31, 2018 to RMB39,557.2 million as of December 31, 2019, and further decreased by 2.5% to RMB38,576.5 million as of December 31, 2020. As of March 31, 2021, our cash and deposits with central bank decreased to RMB36,955.9 million. Such decrease was in line with the decrease in our statutory deposit reserves as a result of the decreases in statutory reserve ratio.

As of December 31, 2018, our deferred tax asset decreased to RMB1,683.8 million, mainly due to the increase in fair value of financial instrument. As of December 31, 2019, our deferred tax asset increased by 19.9% to RMB2,018.1 million, mainly due to higher deferred tax asset as a result of the increase in the provision for expected credit losses of debt securities. As of December 31, 2020, our deferred tax asset increased by 51.3% to RMB3,054.2 million, mainly due to temporary differences arising from fair value change of financial assets at fair value through profit or loss in 2020. As of March 31, 2021, our deferred tax asset remained relatively stable as compared with that as of December 31, 2020.

Our property and equipment increased by 1.4% from RMB2,432.8 million as of December 31, 2020 to RMB2,466.7 million as of March 31, 2021, which is in line with our business expansion. Our property and equipment increased by 54.2% from RMB1,577.6 million as of December 31, 2019 to RMB2,432.8 million as of December 31, 2020, mainly due to the consolidation of Chaoyang RCB in 2020. Our property and equipment increased by 13.0% from RMB1,396.1 million as of December 31, 2018 to RMB1,577.6 million as of December 31, 2019, mainly due to the consolidation of financial results of Zhanjiang RCB in 2019.

Our other assets mainly include prepayment for equity investment, long-term deferred expenses and R&D expenditures. Our other assets decreased by 15.4% from RMB1,710.5 million as of December 31, 2020 to

RMB1,446.7 million as of March 31, 2021, mainly due to the decrease in the amount pending settlement at the end of the period. Our other assets increased by 57.7% from RMB1,084.7 million as of December 31, 2019 to RMB1,710.5 million as of December 31, 2020, mainly due to (i) an increase in online loan business resulted in an increase in the amount pending settlement at the end of the period; and (ii) the consolidation of Chaoyang RCB resulted in an increased in foreclosed assets. Our other assets decreased by 49.6% from RMB2,153.6 million as of December 31, 2018 to RMB1,084.7 million as of December 31, 2019, mainly due to decrease in prepayment for equity investment after the establishment of Zhanjiang RCB.

## LIABILITIES AND SOURCES OF FUNDS

Our total liabilities increased by 12.6% from RMB378,070.1 million as of December 31, 2018 to RMB425,737.0 million as of December 31, 2019, and further increased by 19.7% to RMB509,759.1 million as of December 31, 2020. As of March 31, 2021, our total liabilities increased by 2.8% to RMB524,241.4 million.

The following table sets forth the components of our total liabilities as of the dates indicated.

| | As of December 31, | | | | | | As of March 31, | |
|---|---|---|---|---|---|---|---|---|
| | 2018 | | 2019 | | 2020 | | 2021 | |
| | Amount | % of total | Amount | % of total | Amount | % of total | Amount | % of total |
| | *(in millions of RMB, except percentages)* | | | | | | | |
| Deposits from customers | 265,004.9 | 70.1% | 314,217.0 | 73.8% | 377,548.9 | 74.1% | 389,641.3 | 74.3% |
| Debt securities issued | 55,676.7 | 14.7% | 58,271.7 | 13.7% | 50,249.2 | 9.9% | 54,780.9 | 10.5% |
| Financial assets sold under repurchase agreements and deposits and placements from banks and other financial institutions | 53,204.4 | 14.1% | 46,373.2 | 10.9% | 43,482.2 | 8.5% | 45,590.8 | 8.7% |
| Borrowings from central bank | 644.5 | 0.2% | 2,601.2 | 0.6% | 30,653.4 | 6.0% | 29,870.6 | 5.7% |
| Taxes payable | 536.4 | 0.1% | 913.8 | 0.2% | 822.7 | 0.2% | 1,060.8 | 0.2% |
| Lease liabilities | 500.0 | 0.1% | 456.4 | 0.1% | 450.9 | 0.1% | 433.1 | 0.1% |
| Financial liabilities at fair value through profit or loss | 24.5 | 0.0% | 132.4 | 0.0% | 238.8 | 0.0% | 230.2 | 0.0% |
| Other liabilities[(1)] | 2,478.7 | 0.7% | 2,771.3 | 0.7% | 6,313.0 | 1.2% | 2,633.7 | 0.5% |
| **Total liabilities** | **378,070.1** | **100.0%** | **425,737.0** | **100.0%** | **509,759.1** | **100.0%** | **524,241.4** | **100.0%** |

*Note:*

(1) Consisted primarily of salaries payable.

## Deposits from Customers

Deposits from customers were our primary source of fund during the Track Record Period, representing 70.1%, 73.8%, 74.1% and 74.3% of our total liabilities as of December 31, 2018, 2019 and 2020 and March 31, 2021, respectively. We provide demand and time deposit products to corporate and retail customers. The following table sets forth our deposits from corporate and retail customers by product type as of the dates indicated.

| | As of December 31, | | | | | | As of March 31, | |
|---|---|---|---|---|---|---|---|---|
| | 2018 | | 2019 | | 2020 | | 2021 | |
| | Amount | % of total | Amount | % of total | Amount | % of total | Amount | % of total |
| | *(in millions of RMB, except percentages)* | | | | | | | |
| Corporate deposits | | | | | | | | |
| Demand | 61,001.2 | 23.0% | 70,437.9 | 22.5% | 86,787.1 | 23.0% | 84,524.6 | 21.7% |
| Time | 46,552.8 | 17.6% | 56,061.6 | 17.8% | 61,514.8 | 16.3% | 70,112.4 | 18.0% |
| **Subtotal** | **107,554.0** | **40.6%** | **126,499.5** | **40.3%** | **148,301.9** | **39.3%** | **154,637.0** | **39.7%** |
| Personal deposits | | | | | | | | |
| Demand | 79,817.1 | 30.1% | 91,456.5 | 29.1% | 102,798.2 | 27.2% | 101,253.8 | 26.0% |
| Time | 71,629.9 | 27.0% | 88,953.5 | 28.3% | 118,593.6 | 31.4% | 125,826.0 | 32.3% |
| **Subtotal** | **151,447.0** | **57.1%** | **180,410.0** | **57.4%** | **221,391.8** | **58.6%** | **227,079.8** | **58.3%** |
| Others(1) | 2,508.6 | 0.9% | 3,009.0 | 1.0% | 2,896.1 | 0.8% | 3,184.0 | 0.9% |
| Accrued interest | 3,495.3 | 1.4% | 4,298.5 | 1.3% | 4,959.1 | 1.3% | 4,740.5 | 1.1% |
| **Total deposits from customers** | **265,004.9** | **100.0%** | **314,217.0** | **100.0%** | **377,548.9** | **100.0%** | **389,641.3** | **100.0%** |

*Note:*

(1) Consisted of remittance outstanding and margin deposit.

Our total deposits from customers increased by 18.6% from RMB265,004.9 million as of December 31, 2018 to RMB314,217.0 million as of December 31, 2019, which increased by 20.2% to RMB377,548.9 million as of December 31, 2020, and slightly increased 3.2% to RMB389,641.3 million as of March 31, 2021, primarily as a result of the consolidation of Zhanjiang RCB and Chaoyang RCB in 2019 and 2020, respectively, and increases in both corporate and personal deposits which was in line with our business expansion.

Our corporate deposits increased by 17.6% from RMB107,554.0 million as of December 31, 2018 to RMB126,499.5 million as of December 31, 2019, which increased by 17.2% to RMB148,301.9 million as of December 31, 2020. Our corporate deposits further increased by 4.3% to RMB154,637.0 million as of March 31, 2021. The increases in our corporate deposits resulted primarily from the expansion of our deposit business by enriching our deposit products and enhancing marketing efforts through our "1+3+N" grid management system.

Our personal deposits increased by 19.1% from RMB151,447.0 million as of December 31, 2018 to RMB180,410.0 million as of December 31, 2019, which increased by 22.7% to RMB221,391.8 million as of December 31, 2020. Our personal deposits further increased by 2.6% to RMB227,079.8 million as of March 31, 2021. The increase in our personal deposits resulted primarily from the rapid and steady growth of our personal certificates of deposit and structured deposits since 2018 with its competitive interest rate and quality services for local villagers.

***Distribution of Deposits by Geographical Region***

We classified the geographic distribution of deposits (excluding accrued interest) based on the location of the branch taking the deposits. The following table sets forth the distribution of our deposits from customers by geographic region as of the dates indicated.

| | As of December 31, | | | | | | As of March 31, | |
|---|---|---|---|---|---|---|---|---|
| | 2018 | | 2019 | | 2020 | | 2021 | |
| | Amount | % of total | Amount | % of total | Amount | % of total | Amount | % of total |
| | *(in millions of RMB, except percentages)* | | | | | | | |
| Dongguan | 258,478.5 | 98.8% | 307,176.7 | 99.1% | 316,307.0 | 84.9% | 325,646.3 | 84.6% |
| Other regions | 3,031.1 | 1.2% | 2,741.8 | 0.9% | 56,282.8 | 15.1% | 59,254.5 | 15.4% |
| **Total deposits from customers** | **261,509.6** | **100.0%** | **309,918.5** | **100.0%** | **372,589.8** | **100.0%** | **384,900.8** | **100.0%** |

***Distribution of Deposits by Remaining Maturity***

The following table sets forth the distribution of our deposits (excluding accrued interest) from customers by remaining maturity as of March 31, 2021.

| | Repayable on demand | | Due in less than 1 month | | Due in over 1 month up to 3 months | | Due in over 3 months up to 12 months | | Due in over 1 year up to 5 years | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Amount | % of total deposits | Amount | % of total deposits | Amount | % of total deposits | Amount | % of total deposits | Amount | % of total deposits | Total | % of total deposits |
| Corporate deposits | 79,183.4 | 42.4% | 11,421.8 | 49.8% | 7,784.6 | 37.0% | 23,324.3 | 31.7% | 32,922.9 | 40.7% | 154,637.0 | 40.2% |
| Retail deposits | 106,524.7 | 57.1% | 11,263.1 | 49.1% | 12,600.3 | 60.0% | 49,053.5 | 66.7% | 47,638.2 | 58.9% | 227,079.8 | 59.0% |
| Margin deposits | 725.5 | 0.4% | 254.9 | 1.1% | 628.3 | 3.0% | 1,145.4 | 1.6% | 259.7 | 0.4% | 3,013.8 | 0.8% |
| Other deposits(1) | 165.4 | 0.1% | 0.3 | 0.0% | 0.5 | 0.0% | 2.0 | 0.0% | 2.0 | 0.0% | 170.2 | 0.0% |
| **Total deposits from customers** | **186,599.0** | **100.0%** | **22,940.1** | **100.0%** | **21,013.7** | **100.0%** | **73,525.20** | **100.0%** | **80,822.8** | **100.0%** | **384,900.8** | **100.0%** |

*Note:*

(1) Consisted of remittance outstanding.

***Distribution of Corporate Deposits by Size***

The following table sets forth the distribution of our corporate deposits, in terms of total balance of deposits from a single corporate customer, by size of the deposits as of the dates indicated.

| | As of December 31, | | | | | | As of March 31, | |
|---|---|---|---|---|---|---|---|---|
| | 2018 | | 2019 | | 2020 | | 2021 | |
| | Amount | % of total | Amount | % of total | Amount | % of total | Amount | % of total |
| | *(in millions of RMB, except percentages)* | | | | | | | |
| Over RMB500 million | 28,744.0 | 26.7% | 30,427.5 | 24.1% | 40,541.2 | 27.3% | 41,525.5 | 26.9% |
| Between RMB100 million and RMB500 million (inclusive) | 18,261.7 | 17.0% | 23,374.9 | 18.5% | 26,323.0 | 17.7% | 29,829.5 | 19.3% |
| Between RMB50 million and RMB100 million (inclusive) | 11,169.6 | 10.4% | 14,890.8 | 11.8% | 15,233.7 | 10.3% | 16,049.5 | 10.4% |
| Less than RMB50 million (inclusive) | 49,378.7 | 45.9% | 57,806.3 | 45.6% | 66,204.0 | 44.7% | 67,232.5 | 43.4% |
| **Total corporate deposits** | **107,554.0** | **100.0%** | **126,499.5** | **100.0%** | **148,301.9** | **100.0%** | **154,637.0** | **100.0%** |

***Distribution of Personal Deposits by Size***

The following table sets forth the distribution of our personal deposits, in terms of total balance of deposits from a single retail customer, by size of the deposits as of the dates indicated.

| | As of December 31, | | | | | | As of March 31, | |
|---|---|---|---|---|---|---|---|---|
| | 2018 | | 2019 | | 2020 | | 2021 | |
| | Amount | % of total | Amount | % of total | Amount | % of total | Amount | % of total |
| | *(in millions of RMB, except percentages)* | | | | | | | |
| Over RMB5 million | 8,936.6 | 5.9% | 11,140.5 | 6.2% | 15,110.2 | 6.8% | 15,911.1 | 7.0% |
| Between RMB1 million and RMB5 million (inclusive) | 23,312.8 | 15.4% | 28,177.2 | 15.6% | 37,495.2 | 16.9% | 38,678.3 | 17.0% |
| Between RMB100,000 and RMB1 million (inclusive) | 79,486.7 | 52.5% | 96,575.3 | 53.5% | 120,179.2 | 54.3% | 123,450.3 | 54.4% |
| Less than RMB100,000 (inclusive) | 39,710.9 | 26.2% | 44,517.0 | 24.7% | 48,607.2 | 22.0% | 49,040.1 | 21.6% |
| **Total personal deposits** | **151,447.0** | **100.0%** | **180,410.0** | **100.0%** | **221,391.8** | **100.0%** | **227,079.8** | **100.0%** |

**Other Components of Our Liabilities**

Other components of our liabilities consisted primarily of (i) financial assets sold under repurchase agreements and deposits and placements from banks and other financial institutions, (ii) debt securities issued, (iii) borrowings from central bank, (iv) lease liabilities and (v) other liabilities.

Our financial assets sold under repurchase agreements and deposits and placements from banks and other financial institutions amounted to RMB53,204.4 million, RMB46,373.2 million, RMB43,482.2 million and RMB45,590.8 million as of December 31, 2018, 2019 and 2020 and March 31, 2021, respectively. Decreases in our financial assets sold under repurchase agreements and deposits and placements from banks and other financial institutions in 2019 were primarily due to our decision to gradually increase the size of our interbank certificates of deposits. Decreases in our financial assets sold under repurchase agreements and deposits and placements from banks and other financial institutions in 2020 were primarily due to our adjustment of the size of short-term liabilities in light of liquidity needs in late 2020. Increase in our financial assets sold under repurchase agreements and deposits and placements from banks and other financial institutions in the first three months of 2021 were primarily due to the lower interest rate for interbank deposits in the first three months of 2021 driven us to invest in long-term and cost-efficient interbank deposits.

Debt securities we issued consisted primarily of interbank certificates of deposit, tier-two capital bonds, green financial bonds, SME financial bonds and Sannong financial bonds. For details of our debt securities issued, please see “Financial Information — Capital Resources — Debt — Debt Securities Issued”. During the Track Record Period, customers subscribed for our debts securities and certificates of interbank deposits mainly consisted of banks, funds, securities, trust companies and asset management companies. The aggregated customer number was 487, 481, 634 and 212 for the years ended December 31, 2018, 2019 and 2020 and for the three months ended March 31, 2021, respectively. Our debt securities issued amounted to RMB55,676.7 million, RMB58,271.7 million, RMB50,249.2 million and RMB54,780.9 million as of December 31, 2018, 2019 and 2020 and March 31, 2021, respectively. The table below sets forth the outstanding balances by type of our debt securities as of the dates indicated.

| | As of December 31, | | | As of March 31, |
|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 |
| | *(in millions of RMB)* | | | |
| Interbank certificates of deposit | 51,571.4 | 52,101.6 | 39,293.9 | 41,171.5 |
| Tier-two capital bonds | 3,994.1 | 3,994.8 | 3,995.5 | 3,995.7 |
| Green financial bonds | — | 1,998.6 | 2,842.8 | 2,841.4 |
| SME financial bonds | — | — | 1,948.8 | 4,618.7 |
| Sannong financial bonds | — | — | 1,918.7 | 1,918.5 |
| **Sub-total** | 55,565.5 | 58,095.0 | 49,999.7 | 54,545.8 |
| Interest accrual | 111.2 | 176.7 | 249.5 | 235.1 |
| **Total** | **55,676.7** | **58,271.7** | **50,249.2** | **54,780.9** |

The outstanding balances of interbank certificates of deposit decreased by 24.6% from RMB52,101.6 million as of December 31, 2019 to RMB39,293.9 million as of December 31, 2020, primarily due to the decrease in issuance of interbank certificates of deposit as we bid for MLF issued by PBoC in 2020. The outstanding balances of interbank certificates of deposit increased by 4.8% from RMB39,293.9 million as of December 31, 2020 to RMB41,171.5 million as of March 31, 2021, primarily due to the increase in issuance scale of our interbank certificates of deposits under the relaxation of financing in the first three months of 2021.

***You should read the discussion and analysis set forth in this section in conjunction with our historical financial information, together with the accompanying notes, included in Appendix I to this prospectus. Our historical financial information has been prepared in accordance with IFRS. Capital adequacy ratios discussed in this section are calculated in accordance with applicable CBIRC guidelines and based on our consolidated financial statements prepared in accordance with PRC GAAP.***

## OVERVIEW

We are the fifth largest rural commercial bank in China in terms of total assets and as of December 31, 2020, according to the Top 100 Banks in China released by China Banking Association in 2021[1]. According to the British journal "The Banker", we ranked the 261st among global commercial banks, the 44th among commercial banks in the PRC and the sixth among the rural commercial banks in the PRC in terms of tier-one capital as of December 31, 2020.

As of March 31, 2021, we had total assets of RMB564,558.2 million, total loans (including accrued interest and before taking into account the related allowance for expected credit losses) of RMB276,342.5 million and total customer deposits of RMB389,641.3 million (including accrued interest). Our net profit increased 13.5% from RMB4,453.3 million for the year ended December 31, 2018 to RMB5,055.3 million for the year ended December 31, 2020 and our operating income increased 23.2% from RMB9,777.6 million to RMB12,047.0 million for the same periods. For the three months ended March 31, 2020 and 2021, our net profit amounted to RMB1,527.5 million and RMB1,759.2 million, respectively, and our operating income for the same periods amounted to RMB3,173.1 million and RMB3,156.0 million, respectively.

## GENERAL FACTORS THAT AFFECT OUR RESULTS OF OPERATIONS

Our results of operations and financial condition have been and will be affected by various factors, including, among other things, certain general factors set out below.

### Economic Conditions of the PRC, Guangdong Province and Dongguan

As a rural commercial bank headquartered in Guangdong Province, our financial condition and results of operations are affected by the economic conditions of the PRC and Guangdong Province. Economic policies implemented by the PRC government could have significant impact on the macroeconomy and in turn our business. According to NBS, from 2016 to 2020, the PRC's nominal GDP grew at a CAGR of 8.0%. The PRC's economic growth has resulted in a substantial increase in corporate financing activities and individual wealth, which has in turn contributed to the rapid growth in the corporate and retail banking business of PRC commercial banks. For example, according to PBoC, from 2016 to 2020, total RMB-denominated loans and RMB-denominated deposits in the PRC banking industry grew at a CAGR of 12.8% and 9.0%, respectively. Recently, according to CBIRC, total assets of PRC commercial banks have reached RMB265.8 trillion as of December 31, 2020, growing at a CAGR of 10.0% from 2016 to 2020.

[1] Not including commercial banks of which annual report or effective audited annual reports were not available at the issuance of the rankings in July 2021.

From 1989 to 2020, Guangdong Province ranked the first in terms of nominal GDP among all provinces and municipalities in China for 31 consecutive years. From 2016 to 2020, the nominal GDP of Guangdong Province increased at a CAGR of 7.8%. In addition, Guangdong Province had an urbanization rate of 71.4% in 2019, which was 10.8 percentage points higher than the average urbanization rate of 60.6% in China for the same year.

During the Track Record Period, we derived the majority of our income in Dongguan. Dongguan is well-known as a manufacturing hub and export center in China. Benefiting from remarkable geographical advantages and favorable policies, Dongguan has maintained relatively rapid economic growth for many years. In 2020, Dongguan achieved the nominal GDP of RMB965.0 billion, and ranked fourth among all cities in Guangdong. From 2016 to 2020, the nominal GDP of Dongguan recorded a CAGR of 8.6%.

**Interest Rate in the PRC**

Our net interest income, which is directly affected by interest rates we charged, represented 74.9%, 74.6%, 82.4%, 79.6% and 81.8% of our total operating income for the years ended December 31, 2018, 2019 and 2020 and for the three months ended March 31, 2020 and 2021, respectively. Interest rate has a significant impact on our business, as our operating income is largely derived from our net interest income.

In the PRC, interest rates on RMB-denominated deposits are set by commercial banks with reference to the benchmark interest rates on deposits published, and adjusted by PBoC, and the interest rates on RMB-denominated loans are set by commercial banks with reference to the Loan Prime Rate (LPR) issued by the National Interbank Funding Center. In recent years, China has implemented a series of policies and measures promoting the liberalization of the financial system and, at the same time, strengthening the regulation and supervision of the banking industry. On July 20, 2013, PBoC removed the floor rates for RMB-denominated loans (except for interest rates on residential mortgage loans) and allowed financial institutions to set interest rates based on commercial considerations. Effective August 26, 2015, PBoC removed the cap on the interest rates on RMB-denominated time deposits with terms longer than one year while the cap on the interest rates on RMB-denominated demand deposits and time deposits with terms up to one year remain unchanged. Further, effective October 24, 2015, PBoC removed the cap on interest rates on RMB-denominated deposits and allowed commercial banks in China to set interest rates on RMB-denominated deposits based on commercial considerations. The liberalization of interest rates may intensify competition in the PRC banking industry, thereby affecting our business, results of operations and financial condition. Moreover, the Chinese government may guide interest rates and other key banking indicators from time to time to achieve macroeconomic adjustment targets. For example, the Chinese government has made Loan Prime Rate part of its interest rate reforms. On August 17, 2019, Announcement No. 15 [2019] of the People's Bank of China, which decided to reform and improve the formation mechanism of the LPR in the loan market, stated that each bank should mainly refer to the LPR of the loan market for pricing in its newly issued loans, and adopt the LPR of the loan market as the pricing benchmark in the floating rate loan contract. On August 25, 2019, Announcement No. 16 [2019] of the People's Bank of China, stipulating that from October 8, 2019, the newly issued commercial personal housing loan interest rate shall be formed with LPR of corresponding maturity quoted in the previous month as the pricing benchmark upon which basis points could be added. The interest rate of the first commercial individual housing loan shall not be lower than the LPR for the corresponding term, and the interest rate of the second commercial individual housing loan shall not be lower than the LPR for the corresponding term plus 60 basis points. On December 28, 2019, Announcement No. 16 [2019] of the People's Bank of China was issued, which required that the pricing benchmark of floating rate loans be converted to LPR, and the conversion, in principle, shall be completed before August 31, 2020.

In addition, market liquidity and competition may lead to fluctuations in the net interest spread for our interbank businesses. As a result, our net interest income may be impacted and our business, results of operations and financial condition may also be affected. Please also see "Risk Factors — Risks Relating to the PRC Banking Industry — Further liberalization of interest rates, PBoC's adjustments to the benchmark interest rates, the ongoing reform of the LPR mechanism, the deposit insurance program and other regulatory changes in the PRC banking industry may materially and adversely affect our financial condition and results of operations."

**Competitive Landscape in the Banking Industry in Dongguan and Guangdong Province**

We compete primarily with commercial banks conducting business in Guangdong Province, particularly in Dongguan. We compete with our competitors mainly on asset quality, product portfolio and prices, risk management, reach of distribution network and customer base, brand recognition and scope, service quality and information technology capabilities. The increase in competition in the PRC banking industry in Dongguan and Guangdong Province may affect the pricing of our loans and deposits and our fee-and commission-based banking business.

Many of the competing banks have expanded their operation in Dongguan. Such banks offer product portfolio similar to ours and may offer discount or more attractive interest rates or prices to customers in order to compete with us. Consequently, we need to strike a balance between retaining our existing customers and maintaining our profit margin. Conversely, if we plan to continue to expand our operations in selected geographic locations in Guangdong Province or other regions, we may face intensive competition from banks that already operate in such regions, which might have better local knowledge, larger financial resource, higher brand recognition and more established customer base than us. For details, please see "Industry Overview — China's Banking Industry Overview — Banking Industry in Guangdong Province", "Industry Overview — China's Banking Industry Overview — Competitive Landscape of Banking Industry in Guangdong Province", "Industry Overview — China's Banking Industry Overview — Banking Industry in Dongguan" and "Industry Overview — China's Banking Industry Overview — Competitive Landscape of Banking Industry in Dongguan".

**Regulatory Environment**

The PRC banking industry is highly regulated. PRC commercial banks are mainly regulated by CBIRC and PBoC. Additionally, PRC commercial banks are also subject to the supervision and regulation of other regulatory bodies such as SAFE, CSRC, NDRC and MOF. Please see "Supervision and Regulation — Principal Regulators"

Our business, financial condition and results of operations are affected by changes in the PRC banking laws, regulations and policies such as the scope of business PRC commercial banks are permitted to engage in, interests and fees PRC commercial banks are allowed to charge, and restrictions imposed by regulatory authorities on PRC commercial banks in respect of credit extension to borrowers in specific industries or specific loan products.

In recent years, the PRC government has implemented a series of macroeconomic and monetary policies, including (i) adjusting the benchmark interest rates and PBoC statutory deposit reserve ratios for commercial banks, as well as gradually liberalizing the regulation of interest rates; (ii) adopting a Macro Prudential

Assessment (MPA) system to monitor banks' capital adequacy ratios, assets and liabilities, liquidity, and risk; and (iii) promoting the growth of certain industries, or controlling overcapacity in certain other industries, by issuing industry development guidelines. These macroeconomic and monetary policies have had a significant impact on lending activities of PRC rural commercial banks and borrowers' demand for bank financing, which in turn may affect the business, results of operations and financial condition of PRC rural commercial banks, including ours. In addition, the PRC banking regulatory authorities have enhanced regulation on wealth management and interbank businesses of commercial banks, while restrictions on the asset securitization market have been relaxed. New regulations issued by regulatory authorities may have impacts on our business, results of operations and financial condition.

**Development of China's Capital Markets and Internet-based Financial Service Platforms**

China has launched a number of initiatives to develop a multi-layered capital market and has encouraged enterprises to seek direct financing from the capital markets in recent years, which may affect the core businesses of PRC banks. The deepening of China's debt capital markets may impact our lending business, as certain corporate borrowers may issue debt securities at lower costs to meet their financing needs and thus have lower demands for bank loans. On the other hand, the development of China's capital markets may allow us to expand our fee- and commission-based business, such as our investment banking business and funds distribution, and broaden the scope of securities we may invest in.

Further, China's traditional banking institutions are also facing new challenges from innovations in financial products and technology, for example, online wealth management products, third-party online payment platforms and Internet-based financing service platforms. These innovations in products and technologies may affect the business, results of operations and financial condition of PRC banks.

## SELECTED FINANCIAL DATA

The following table sets forth our consolidated income statements for the periods indicated.

| | For the years ended December 31, | | | For the three months ended March 31, | |
|---|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2020 | 2021 |
| | *(in millions of RMB, except otherwise indicated)* | | | | |
| Interest income | 16,114.7 | 17,353.1 | 19,517.6 | 4,757.6 | 5,304.3 |
| Interest expense | (8,794.3) | (8,551.9) | (9,585.2) | (2,230.4) | (2,724.0) |
| **Net interest income** | 7,320.4 | 8,801.2 | 9,932.4 | 2,527.2 | 2,580.3 |
| Fee and commission income | 1,052.7 | 1,184.1 | 995.1 | 207.1 | 226.1 |
| Fee and commission expense | (101.1) | (129.3) | (54.7) | (14.8) | (32.7) |
| **Net fee and commission income** | 951.6 | 1,054.8 | 940.4 | 192.3 | 193.4 |
| Net trading (losses)/gains | 1,223.0 | 1,133.3 | 881.3 | 361.3 | 308.2 |
| Net (losses)/gains on financial investments | 82.0 | 462.9 | 181.9 | 57.6 | 57.5 |
| Other operating income[(1)] | 200.6 | 343.0 | 111.0 | 34.7 | 16.6 |
| **Operating income** | 9,777.6 | 11,795.2 | 12,047.0 | 3,173.1 | 3,156.0 |
| Operating expense | (3,049.3) | (3,535.8) | (3,924.9) | (1,008.3) | (899.0) |
| Expected credit losses and asset losses | (1,717.1) | (2,593.5) | (2,774.3) | (437.2) | (272.6) |
| Operating profit | 5,011.2 | 5,665.9 | 5,347.8 | 1,727.6 | 1,984.4 |
| Share of profit of investments accounted by equity method | 23.0 | 34.9 | 24.3 | 6.3 | 15.7 |
| **Profit before tax** | 5,034.2 | 5,700.8 | 5,372.1 | 1,733.9 | 2,000.1 |
| Income tax expense | (580.9) | (830.6) | (316.8) | (206.4) | (240.9) |
| **Net profit** | 4,453.3 | 4,870.2 | 5,055.3 | 1,527.5 | 1,759.2 |
| Net profit attributable to our shareholders | 4,482.4 | 4,935.9 | 4,856.9 | 1,500.9 | 1,711.8 |
| Net profit attributable to non-controlling interests | (29.1) | (65.7) | 198.4 | 26.6 | 47.4 |

*Note:*

(1) Consisted primarily of gains from disposal of fixed assets, rental income, government grants and others.

The following table sets forth, for the periods indicated, key financial indicators.

| | For the years ended December 31, | | | For the three months ended March 31, | |
|---|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2020 | 2021 |
| **Profitability indicators** | | | | | |
| Return on average total assets[(1)] | 1.14% | 1.12% | 1.00% | 1.33% | 1.26% |
| Return on average equity[(2)] | 16.42% | 14.92% | 13.64% | 15.74% | 16.71% |
| Net interest spread[(3)] | 1.98% | 2.10% | 2.10% | 2.23% | 1.91% |
| Net interest margin[(4)] | 2.05% | 2.18% | 2.16% | 2.34% | 1.98% |
| Cost-to-income ratio[(5)] | 29.98% | 28.84% | 31.51% | 30.86% | 27.60% |

*Notes:*

(1) Calculated by dividing net profit for the period by average balance of total assets at the beginning and the ending of the period.

(2) Calculated by dividing net profit for the period by average balance of total equity at the beginning and the ending of the period.

(3) Calculated as the difference between the average yield on total interest-earning assets and the average cost of total interest-bearing liabilities.

(4) Calculated by dividing net interest income by the average balance of total interest-earning assets.

(5) Calculated by dividing total operating expenses (excluding tax and surcharges) by total operating income.

Return on average total assets decreased from 1.14% in 2018 to 1.12% in 2019 and further decreased to 1.00% in 2020. For the same years, our return on equity decreased from 16.42% to 14.92% and further decreased to 13.64%, respectively. Such decrease reflects a faster growth of our total assets and total shareholders' equity as compared to the growth our net profit, which was primarily due to (i) our acquisition of Zhanjiang RCB in November 2019 and Chaoyang RCB in December 2020, resulting in a significant increase in our total assets and total shareholders' equity; and (ii) relative small portion of net profit recognized in the corresponding years due to the short time period since acquisition. For the three months ended March 31, 2020 and 2021, our return on average total assets decreased from 1.33% to 1.26% , mainly due to the consolidation of Chaoyang RCB in December 2020, which has a relatively lower profitability as compared with that of our Group. For the same period, our return on equity increased from 15.74% to 16.71%, reflecting a faster growth of our net profit as compared to the growth of our shareholders' equity, which was in turn due to (i) the increased net profit in the first three months of 2021 resulted from our business expansion and effective cost management; and (ii) the decreased shareholders' equity because changes in fair value of financial assets at fair value through other comprehensive income decreased as the market interest rate of our debt securities increased in the first three months of 2021.

The following table sets forth information relating to certain regulatory indicators, calculated in accordance with the requirements of the PRC banking regulatory authorities and applicable accounting standards, as of the dates indicated.

| | For the years ended December 31, | | | As of March 31, | Regulatory Requirement |
|---|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 | |
| **Capital adequacy indicators** | | | | | |
| Core tier-one capital adequacy ratio(1) . . . . . . . | 12.08% | 12.63% | 11.54% | 11.52% | ≥ 7.5% |
| Tier-one capital adequacy ratio(2) . . . . . . . . . . . | 12.09% | 12.65% | 11.57% | 11.56% | ≥ 8.5% |
| Capital adequacy ratio(3) . . . . . . . . . . . . . . . . . . | 14.84% | 15.30% | 14.00% | 13.93% | ≥10.5% |
| **Asset quality indicators** | | | | | |
| Non-performing loan ratio(4) . . . . . . . . . . . . . . . | 1.27% | 1.00% | 0.82% | 0.79% | ≤ 5% |
| Allowance coverage ratio(5) . . . . . . . . . . . . . . . | 345.74% | 389.57% | 375.13% | 376.90% | ≥ 150% |
| Allowance to total loan ratio(6) . . . . . . . . . . . . . | 4.39% | 3.88% | 3.06% | 2.99% | ≥ 2.5% |
| **Other indicators** | | | | | |
| Loan to deposit ratio(7) . . . . . . . . . . . . . . . . . . . | 62.85% | 66.65% | 70.36% | 71.80% | N/A |

*Notes:*

(1) Calculated by dividing core tier-one capital, net of core tier-one capital deductions, by risk-weighted assets. For the components of core tier-one capital, core tier 1 capital deductions and risk weighted assets, please see "Supervision and Regulation — Supervision over Capital Adequacy" and "Financial Information — Capital Resources — Capital Adequacy."

(2) Calculated by dividing tier-one capital, net of tier-one capital deductions, by risk-weighted assets. For the components of tier-one capital, tier-one capital deductions and risk weighted assets, please see "Supervision and Regulation — Supervision over Capital Adequacy" and "Financial Information — Capital Resources — Capital Adequacy."

(3) Calculated by dividing total capital, net of capital deductions, by risk-weighted assets. For the components of our total capital, capital deductions and risk weighted assets, please see "Supervision and Regulation — Supervision over Capital Adequacy" and "Financial Information — Capital Resources — Capital Adequacy."

(4) Calculated by dividing the amount of NPL (excluding accrued interest) by total amount of loans (excluding accrued interest). For the purpose of NPL ratio calculation, the loan balance of Zhanjiang RCB, our subsidiary, was calculated by the original book value of the loans as of December 31, 2019 and 2020 and March 31, 2021, respectively, and not the fair value on the combination date. For the purpose of NPL ratio calculation, the NPL ratio of Chaoyang RCB was calculated by the original book value of the loans as of December 31, 2020 and March 31, 2021 and not the fair value on the combination date.

(5) Calculated by dividing impairment allowances by total non-performing loans (excluding accrued interest). The impairment allowance does not include impairment allowances recorded under bills discounted in other comprehensive income. The allowance coverage ratio of Zhanjiang RCB, our subsidiary, was calculated by the original book value of the loans as of December 31, 2019 and 2020 and March 31, 2021, respectively, and not the fair value on the combination date. The allowance coverage ratio of Chaoyang RCB, our subsidiary, was calculated by the original book value of the loans as of December 31, 2020 and March 31, 2021 and not the fair value on the combination date.

(6) Calculated by dividing impairment allowances by total loans (excluding accrued interest). The impairment allowance does not include impairment allowances recorded under bills discounted in other comprehensive income. The allowance to total loan ratio of Zhanjiang RCB, our subsidiary, was calculated by the original book value as of December 31, 2019 and 2020 and March 31, 2021, respectively, of the loans and not the fair value on the combination date. The allowance to total loan ratio of Chaoyang RCB, our subsidiary, was calculated by the original book value of the loans as of December 31, 2020 and March 31, 2021 and not the fair value on the combination date.

(7) Calculated by dividing total loans to customers (excluding accrued interest) by total deposits (excluding accrued interest). The loan to deposit ratio of Zhanjiang RCB, our subsidiary, was calculated by the book value of the loans as of December 31, 2019 and 2020 and March 31, 2021, respectively, and not the fair value on the combination date. The loan to deposit ratio of Chaoyang RCB, our subsidiary, was calculated by the original book value of the loans as of December 31, 2020 and March 31, 2021 and not the fair value on the combination date. Before October 1, 2015, the loan to deposit ratio of commercial banks in the PRC shall not exceed 75%. Upon the revision of the Commercial Bank Law of the PRC, with effective from October 1, 2015, such requirement of loan to deposit ratio of not exceeding 75% had been abolished.

## RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2020 AND 2021

### Net Interest Income

We generated the majority of our operating income from net interest income for the three months ended March 31, 2020 and 2021, which represented 79.6% and 81.8% of our operating income of the same years, respectively.

The following table sets forth our interest income, interest expense and net interest income for the periods indicated.

| | For the three months ended March 31, | |
|---|---|---|
| | **2020** | **2021** |
| | *(in millions of RMB)* | |
| Interest income | 4,757.6 | 5,304.3 |
| Interest expense | (2,230.4) | (2,724.0) |
| **Net interest income** | **2,527.2** | **2,580.3** |

Our net interest income increased by 2.1% from RMB2,527.2 million for the three months ended March 31, 2020 to RMB2,580.3 million for the three months ended March 31, 2021, primarily due to a 11.5%

increase in our interest income, which was in turn due to a 20.7% increase in the average balance of our interest-earning assets resulting from a 26.2% increase in the average size of our loans and advances to customers, partially offset by the decrease in profit margin resulted from interest-earning assets due to the on-going reform of LPR mechanism and the increase of 22.1% in interest expenses resulted from competition in the banking industry and our business expansion.

The following table sets forth the average balances of our interest-earning assets and interest-bearing liabilities, the related interest income or expense and the related average yields on assets or related average costs of liabilities for the periods indicated.

| | For the three months ended March 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2020 | | | 2021 | | |
| | Average balance | Interest income/ expense | Average yield/ cost(1) | Average balance | Interest income/ expense | Average yield/ cost(1) |
| | *(in millions of RMB, except percentages)* | | | | | |
| **Interest-earning assets** | | | | | | |
| Loans and advances to customers | 213,689.9 | 3,028.5 | 5.67% | 269,623.1 | 3,510.9 | 5.21% |
| Financial investments | 162,362.5 | 1,511.4 | 3.72% | 192,676.4 | 1,596.0 | 3.31% |
| Deposits with central bank | 30,018.6 | 113.3 | 1.51% | 33,232.1 | 117.9 | 1.42% |
| Financial assets held under resale agreements and deposits and placements with banks and other financial institutions | 25,531.6 | 104.4 | 1.64% | 25,458.0 | 79.5 | 1.25% |
| **Total interest-earning assets** | **431,602.5** | **4,757.6** | **4.41%** | **520,989.6** | **5,304.3** | **4.07%** |
| **Interest-bearing liabilities** | | | | | | |
| Deposits from customers | 296,952.2 | 1,428.1 | 1.92% | 373,328.0 | 1,797.8 | 1.93% |
| Debt securities issued | 64,041.3 | 506.8 | 3.17% | 52,576.9 | 411.1 | 3.13% |
| Financial assets sold under repurchase agreements and deposits and placements from banks and other financial institutions | 44,798.9 | 264.4 | 2.36% | 47,463.1 | 288.1 | 2.43% |
| Borrowings from central banks | 2,948.1 | 26.6 | 3.61% | 30,725.0 | 222.6 | 2.90% |
| Leasing liability | 447.9 | 4.5 | 4.02% | 442.0 | 4.4 | 3.95% |
| **Total interest-bearing liabilities** | **409,188.4** | **2,230.4** | **2.18%** | **504,535.0** | **2,724.0** | **2.16%** |
| **Net interest income** | | 2,527.2 | | | 2,580.3 | |
| **Net interest spread(2)** | | | 2.23% | | | 1.91% |
| **Net interest margin(3)** | | | 2.34% | | | 1.98% |

*Notes:*

(1) Calculated by dividing interest income/expense by the average balance.

(2) Calculated as the difference between the average yield on total interest-earning assets and the average cost of total interest-bearing liabilities.

(3) Calculated by dividing net interest income by the average balance of total interest-earning assets.

The following table sets forth the allocation of changes in our interest income and interest expense due to changes in volume and changes in rate for the periods indicated. Changes in volume are measured by changes in the average balances and changes in rate are measured by changes in the average rates. Changes caused by both volume and rate have been allocated to changes in volume.

| | For the three months ended March 31, 2021 vs. 2020 | | |
|---|---|---|---|
| | Increase/ (decrease) due to | | Net increase/ (decrease)[3] |
| | Volume[1] | Rate[2] | |
| | *(in millions of RMB)* | | |
| **Interest-earning assets** | | | |
| Deposits with central bank[4] | 12.2 | (7.6) | 4.6 |
| Financial assets held under resale agreements and deposits and placements with banks and other financial institutions | (0.3) | (24.6) | (24.9) |
| Loans and advances to customers | 792.8 | (310.4) | 482.4 |
| Financial investments[5] | 282.1 | (197.5) | 84.6 |
| **Changes in interest income** | 1,086.8 | (540.1) | 546.7 |
| **Interest-bearing liabilities** | | | |
| Borrowing from central bank | 250.5 | (54.5) | 196.0 |
| Financial assets sold under repurchase agreements and deposits and placements from banks and other financial institutions | 15.8 | 7.9 | 23.7 |
| Deposits from customers | 367.3 | 2.4 | 369.7 |
| Debt securities issued[6] | (90.7) | (5.0) | (95.7) |
| Lease liabilities | — | (0.1) | (0.1) |
| **Changes in interest expense** | 542.9 | (49.3) | 493.6 |
| **Changes in net interest income** | 543.9 | (490.8) | 53.1 |

*Notes:*

(1) Represents the average balance for the period minus the average balance for the previous period, multiplied by the average yield/cost of the previous year.

(2) Represents the average yield/cost for the period minus the average yield/cost for the previous year, multiplied by the average balance for the period.

(3) Represents interest income/expense for the period minus interest income/expense for the previous period.

(4) Consisted primarily of statutory deposit reserves and surplus deposit reserves.

(5) Consisted primarily of interest-earning financial investments at amortized costs and financial investments at fair value through other comprehensive income. Since interest income from financial assets at fair value through profit or loss is regarded as trading gains under IFRS 9, financial assets at fair value through profit or loss are excluded for the purpose of the above table.

(6) Consisted primarily of interbank certificates of deposits, tier-two capital debt securities, green financial debt securities, Sannong financial bonds and SME financial bonds.

***Interest Income***

The following table sets forth the breakdown of our interest income for the periods indicated.

| | For the three months ended March 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2020 | | | 2021 | | |
| | **Amount** | **% of total** | **Average yield** | **Amount** | **% of total** | **Average yield** |
| | *(in millions of RMB, except percentages)* | | | | | |
| **Interest income from** | | | | | | |
| Loans and advances to customers | 3,028.5 | 63.7% | 5.67% | 3,510.9 | 66.2% | 5.21% |
| Financial investments | 1,511.4 | 31.7% | 3.72% | 1,596.0 | 30.1% | 3.31% |
| Deposits with central bank | 113.3 | 2.4% | 1.51% | 117.9 | 2.2% | 1.42% |
| Financial assets held under resale agreements and deposits and placements with banks and other financial institutions | 104.4 | 2.2% | 1.64% | 79.5 | 1.5% | 1.25% |
| **Total interest income** | **4,757.6** | **100.0%** | **4.41%** | **5,304.3** | **100.0%** | **4.07%** |

Our interest income increased by 11.5% from RMB4,757.6 million for the three months ended March 31, 2020 to RMB5,304.3 million for the three months ended March 31, 2021, primarily due to a 20.7% increase in the average balance of our interest-earning assets from RMB431,602.5 million for the three months ended March 31, 2020 to RMB520,989.6 million for the three months ended March 31, 2021, primarily due to the consolidation of Chaoyang RCB. It was partially offset by the decrease of average yield from 4.41% to 4.07% for the same period, respectively, mainly because of the implementation of LPR.

*Interest Income from Loans and Advances to Customers*

Interest income from loans and advances to customers accounted for 63.7% and 66.2% of our interest income for the three months ended March 31, 2020 and 2021, respectively.

Our loans and advances to customers consisted of corporate loans and advances, personal loans and advances and discounted bills. The following table sets forth the daily average balance, interest income and average yield for each component of our loans and advances to customers for the years indicated.

| | For the three months ended March 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2020 | | | 2021 | | |
| | **Average balance** | **Interest income** | **Average yield** | **Average balance** | **Interest income** | **Average yield** |
| | *(in millions of RMB, except percentages)* | | | | | |
| Corporate loans and advances | 123,246.7 | 1,919.7 | 6.23% | 161,789.0 | 2,207.7 | 5.46% |
| Personal loans and advances | 72,185.7 | 982.1 | 5.44% | 82,823.5 | 1,142.2 | 5.52% |
| Discounted bills | 18,257.5 | 126.7 | 2.78% | 25,010.6 | 161.0 | 2.58% |
| **Total** | **213,689.9** | **3,028.5** | **5.67%** | **269,623.1** | **3,510.9** | **5.21%** |

Our interest income from loans and advances to customers increased by 15.9% from RMB3,028.5 million for the three months ended March 31, 2020 to RMB3,510.9 million for the three months ended March 31, 2021, primarily due to the increase in the aggregate loan amount we granted to our customers, evidenced by the increase in the average balance of our total loans and advances to customers from RMB213,689.9 million for the three months ended March 31, 2020 to RMB269,623.1 million for the three months ended March 31, 2021. The average yield on our loans and advances to customers decreased from 5.67% to 5.21% for the three months ended March 31, 2020 and 2021, primarily due to the implementation of LPR and the decrease in the interest rate as affected by the COVID-19.

*Corporate Loans and Advances.* Interest income from corporate loans and advances was the largest component of our interest income from loans and advances to customers, representing 63.4% and 62.9% of our total interest income from loans and advances to customers for the three months ended March 31, 2020 and 2021, respectively.

Our interest income from corporate loans and advances increased by 15.0% from RMB1,919.7 million for the three months ended March 31, 2020 to RMB2,207.7 million for the three months ended March 31, 2021. The average balance of our corporate loans and advances increased by 31.3% from RMB123,246.7 million for the three months ended March 31, 2020 to RMB161,789.0 million for the three months ended March 31, 2021. The average yield on our corporate loans and advances decreased from 6.23% for the three months ended March 31, 2020 to 5.46% for the three months ended March 31, 2021, primarily due to the decrease in the prevailing interest rates in response to the COVID-19 economic recovery policy.

*Personal Loans and Advances.* Interest income from personal loans and advances accounted for 32.4% and 32.5% of our total interest income from loans and advances to customers for the three months ended March 31, 2020 and 2021, respectively.

Interest income from personal loans and advances increased by 16.3% from RMB982.1 million for the three months ended March 31, 2020 to RMB1,142.2 million for the three months ended March 31, 2021, mainly due to the increase in both average balance and average yield. The average balance of our personal loans and advances increased by 14.7% from RMB72,185.7 million for the three months ended March 31, 2020 to RMB82,823.5 million for the three months ended March 31, 2021, primarily due to our effort to expand our personal loan business. The average yield on our personal loans and advances increased from 5.44% for the three months ended March 31, 2020 to 5.52% for the three months ended March 31, 2021, primarily due to increase in amount and proportion of online loans with higher yield compared with loans granted offline.

*Discounted bill.* Interest income from discounted bill accounted for 4.2% and 4.6% of our total interest income from loans and advances to customers for the three months ended March 31, 2020 and 2021, respectively.

Interest income from discounted bill increased by 27.1% from RMB126.7 million for the three months ended March 31, 2020 to RMB161.0 million for the three months ended March 31, 2021, primarily due to an expansion of our bill discounting business.

*Interest Income from Financial Investments*

Interest income from financial investments represented 31.7% and 30.1% of our total interest income for the three months ended March 31, 2020 and 2021, respectively.

Our interest income from financial investments increased by 5.6% from RMB1,511.4 million for the three months ended March 31, 2020 to RMB1,596.0 million for the three months ended March 31, 2021, which was primarily due to the increase of our financial investment, partially offset by the decrease in investment yield rate.

The following table sets forth a breakdown of the average balances and interest income of debt securities investment, rights to earnings on credit assets, wealth management direct financing instruments as well as their respective average yields for the years indicated:

| | For the three months ended March 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2020 | | | 2021 | | |
| | Average balance | Interest income | Average yield | Average balance | Interest income | Average yield |
| | (in millions of RMB, except percentages) | | | | | |
| **Interest income from financial investments** | | | | | | |
| Debt securities investment | 158,070.5 | 1,452.7 | 3.68% | 191,316.4 | 1,578.5 | 3.30% |
| Rights to earnings on credit assets | 3,515.7 | 46.8 | 5.33% | 1,138.0 | 13.9 | 4.90% |
| Wealth management instruments for direct financing | 776.3 | 11.9 | 6.12% | 222.0 | 3.6 | 6.44% |
| **Total** | **162,362.5** | **1,511.4** | **3.72%** | **192,676.4** | **1,596.0** | **3.31%** |

The substantial majority of our interest income from financial investments for the three months ended March 31, 2020 and 2021 was generated from investment in debt securities, which represented 96.1% and 98.9% of our total interest income from financial investment, respectively. The average yields of our investment in debt securities decreased from 3.68% for the three months ended March 31, 2020 to 3.30% for the three months ended March 31, 2021, mainly due to the maturity of debt securities with relatively higher yields.

The interest income of rights to earnings on credit assets for the three months ended March 31, 2020 and 2021 represented 3.1% and 0.9%, respectively, of our interest income from financial investments. The average yields of our rights to earnings on credit assets decreased from 5.33% for the three months ended March 31, 2020 to 4.90% for the three months ended March 31, 2021, mainly due to the increase in rights on earnings on credit assets with relatively lower yields in December 2020.

The interest income of wealth management instruments for direct financing for the three months ended March 31, 2020 and 2021 represented 0.8% and 0.2% of our interest income from financial investment, respectively. The average yields of our wealth management direct financing instruments increased from 6.12% for the three months ended March 31, 2020 to 6.44% for the three months ended March 31, 2021, mainly due to the relatively higher yields for our outstanding wealth management instruments for direct financing.

For a breakdown of the balances of our financial investments by business model and cashflow characteristics as of March 31, 2020 and 2021 and their corresponding components, please see "Assets and Liabilities — Assets — Financial Assets — Distribution by Business Model and Cashflow Characteristics.

*Interest Income from Deposits with Central Bank*

Interest income from deposits with central bank represented 2.4% and 2.2% of our interest income for the three months ended March 31, 2020 and 2021, respectively.

Our interest-earning assets balances of our deposits with central bank consist primarily of statutory deposit reserves and surplus deposit reserves with PBoC. Statutory deposit reserves represent the minimum level of cash deposits that we are required to maintain at PBoC, calculated as a percentage of the balance of our general deposits from customers. Surplus deposit reserves are deposits with PBoC in excess of statutory deposit reserves, which we maintain with PBoC for clearing purposes.

Our interest income from deposits with central bank slightly increased by 4.1% from RMB113.3 million for the three months ended March 31, 2020 to RMB117.9 million for the three months ended March 31, 2021, primarily due to the decrease in average yields. The average yields of our deposits with central bank decreased from 1.51% for the three months ended March 31, 2020 to 1.42% for the three months ended March 31, 2021, primarily due to the increase in surplus deposit reserves with low interest rate.

*Interest Income from Financial Assets Held under Resale Agreements and Deposits and Placements with Banks and Other Financial Institutions*

Interest income from financial assets held under resale agreements and deposits and placements with banks and other financial institutions represented 2.2% and 1.5% of our interest income for the three months ended March 31, 2020 and 2021, respectively.

Our interest income from financial assets held under resale agreements and deposits and placements with banks and other financial institutions decreased by 23.9% from RMB104.4 million for the three months ended March 31, 2020 to RMB79.5 million for the three months ended March 31, 2021, primarily due to the decrease in average yields. The average balance of financial assets held under resale agreements and deposits and placements with banks and other financial institutions remained relatively stable for the same periods.

***Interest Expense***

The following table sets forth the breakdown of our interest expense for the periods indicated.

| | For the three months ended March 31, | | | |
|---|---|---|---|---|
| | 2020 | | 2021 | |
| | Amount | % of total | Amount | % of total |
| | *(in millions of RMB, except percentages)* | | | |
| **Interest expense on** | | | | |
| Deposits from customers | 1,428.1 | 64.0% | 1,797.8 | 65.9% |
| Debt Securities Issued | 506.8 | 22.7% | 411.1 | 15.1% |
| Financial assets sold under repurchase agreements and deposits and placements from banks and other financial institutions | 264.4 | 11.9% | 288.1 | 10.6% |
| Borrowings from central banks | 26.6 | 1.2% | 222.6 | 8.2% |
| Lease liabilities | 4.5 | 0.2% | 4.4 | 0.2% |
| **Total interest expense** | **2,230.4** | **100.0%** | **2,724.0** | **100.0%** |

Our interest expense increased by 22.1% from RMB2,230.4 million for the three months ended March 31, 2020 to RMB2,724.0 million for the three months ended March 31, 2021, primarily due to the increase in interest expense for borrowings from central bank in line with our increase in PBoC's medium-term lending facility.

*Interest Expense on Deposits from Customers*

Deposits from customers are our primary source of funding. Interest expense on deposits from customers represented 64.0% and 65.9% of our total interest expense for the three months ended March 31, 2020 and 2021, respectively.

The following table sets forth the daily average balance, interest expense and average cost of our customer deposits by product type for the periods indicated.

| | For the three months ended March 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2020 | | | 2021 | | |
| | Average balance | Interest expense | Average cost | Average balance | Interest expense | Average cost |
| | (in millions of RMB, except percentages) | | | | | |
| **Corporate deposits** | | | | | | |
| Demand | 59,429.2 | 117.3 | 0.79% | 88,013.6 | 165.5 | 0.75% |
| Time | 55,904.3 | 533.6 | 3.82% | 64,796.5 | 615.1 | 3.80% |
| Subtotal | 115,333.5 | 650.9 | 2.26% | 152,810.1 | 780.6 | 2.04% |
| **Personal deposits** | | | | | | |
| Demand | 93,949.6 | 127.3 | 0.54% | 103,204.1 | 146.5 | 0.57% |
| Time | 87,669.1 | 649.9 | 2.97% | 117,313.8 | 870.7 | 2.97% |
| Subtotal | 181,618.7 | 777.2 | 1.71% | 220,517.9 | 1,017.2 | 1.85% |
| **Total deposits from customers** | **296,952.2** | **1,428.1** | **1.92%** | **373,328.0** | **1,797.8** | **1.93%** |

Our interest expense on deposits from customers increased by 25.9% from RMB1,428.1 million for the three months ended March 31, 2020 to RMB1,797.8 million for the three months ended March 31, 2021, primarily due to the increase in our deposits from customers.

*Interest Expense on Financial Assets Sold under Repurchase Agreements and Deposits and Placements from Banks and Other Financial Institutions*

Interest expense on financial assets sold under repurchase agreements and deposits and placements from banks and other financial institutions represented 11.9% and 10.6% of our interest expense for the three months ended March 31, 2020 and 2021, respectively.

Our interest expense on financial assets sold under repurchase agreements and deposits and placements from banks and other financial institutions increased from RMB264.4 million for the three months ended March 31, 2020 to RMB288.1 million for the three months ended March 31, 2021, primarily due to the increase in average balance of our financial assets sold under repurchase agreements and deposits and placements from banks and other financial institutions.

*Interest Expense on Debt Securities Issued*

Interest expense on debt securities issued represented 22.7% and 15.1% of our interest expense for the three months ended March 31, 2020 and 2021, respectively.

Our interest expense on debt securities issued decreased by 18.9% from RMB506.8 million for the three months ended March 31, 2020 to RMB411.1 million for the three months ended March 31, 2021, primarily due to significant decrease in average balance of certificates of interbank deposits, which in turn was because our Bank acquired stable liabilities from PBoC through active participation in medium-term lending facility bidding.

*Interest Expenses on Borrowings from Central Bank*

Interest expense on borrowings from central bank represented 1.2% and 8.2% of our interest expense for the three months ended March 31, 2020 and 2021, respectively.

Our interest expense on borrowing from the central bank increased by 736.8% from RMB26.6 million for the three months ended March 31, 2020 to RMB222.6 million for the three months ended March 31, 2021, primarily because our Bank actively participated in PBoC's medium-term lending facility bidding and acquired stable liabilities.

***Net Interest Spread and Net Interest Margin***

Net interest spread is the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities. Net interest margin is the ratio of net interest income to the average balance of total interest-earning assets.

Our net interest spread decreased from 2.23% for the three months ended March 31, 2020 to 1.91% for the three months ended March 31, 2021. Our net interest margin decreased from 2.34% for the three months ended March 31, 2020 to 1.98% for the three months ended March 31, 2021. The decrease in net interest margin was due to (i) the implementation of LPR, and (ii) interest rate liberalization that intensified competition in the PRC banking industry and therefore narrowed the net interest margin.

**Net Fee and Commission Income**

Net fee and commission income remained the same at 6.1% of our total operating income for the three months ended March 31, 2020 and 2021, respectively. The following table sets forth the principal components of our net fee and commission income for the periods indicated.

| | For the three months ended March 31, | |
|---|---|---|
| | **2020** | **2021** |
| | *(in millions of RMB)* | |
| **Fee and commission income** | | |
| Bank card services | 105.0 | 75.9 |
| Custodian and other fiduciary services | 31.9 | 57.7 |
| Wealth management agency services | 55.0 | 65.9 |
| Settlement and clearing services | 5.3 | 7.8 |
| Others | 9.9 | 18.8 |
| Subtotal | 207.1 | 226.1 |
| **Fee and commission expenses** | **(14.8)** | **(32.7)** |
| **Net fee and commission income** | **192.3** | **193.4** |

Our net fee and commission income slightly increased by 0.6% from RMB192.3 million for the three months ended March 31, 2020 to RMB193.4 million for the three months ended March 31, 2021.

***Fee and Commission Income***

Our fee and commission income increased by 9.2% from RMB207.1 million for the three months ended March 31, 2020 to RMB226.1 million for the three months ended March 31, 2021. The increase was mainly due to maturity and sale of our wealth management products and business recovery benefited from the effective COVID-19 control policy.

*Bank Card Service Fees*

Bank card service fees consisted primarily of transaction fees on the payment made with our bank cards. Bank card service fees decreased by 27.7% from RMB105.0 million for the three months ended March 31, 2020 to RMB75.9 million for the three months ended March 31, 2021, primarily due to the downward adjustment of bank card service fees in response to the market competition and to support rural vitalization.

*Custodian and Other Fiduciary Service Fees*

Custodian and other fiduciary service fees consisted primarily of fees earned on agency services for sales of insurances and other products issued by third parties. Custodian and other fiduciary service fees increased by 80.9% from RMB31.9 million for the three months ended March 31, 2020 to RMB57.7 million for the three months ended March 31, 2021, mainly due to the resume of relevant business from COVID-19 impact as the marketing and promotion activities were restricted in 2020 under the strict COVID-19 control policies.

*Wealth Management Agency Service Fee*

Wealth management agency service fees consist primarily of fees and commissions received for wealth management agency services provided to our customers. Our wealth management agency service fees increased by 19.8% from RMB55.0 million for the three months ended March 31, 2020 to RMB65.9 million for the three months ended March 31, 2021, primarily due to maturity and sale of wealth management products.

*Settlement and Clearing Services Fee*

Settlement and clearing services fees consisted primarily of fees earned on settlement and clearing services in respect of bank acceptance bills, promissory notes and cheques, as well as fees earned on money transfers and clearing services. Settlement can be effectuated through our branch offices, automatic terminals or via internet and mobile banking. Our settlement fees and clearing service fee increased by 47.2% from RMB5.3 million for the three months ended March 31, 2020 to RMB7.8 million for the three months ended March 31, 2021, mainly due to the expansion of our online banking business.

***Fee and Commission Expense***

Fee and commission expenses consist primarily of fees paid to third parties in connection with our fee and commission-based services that can be directly allocated to the provision of such services. Our fee and commission expenses increased by 120.9% from RMB14.8 million for the three months ended March 31, 2020 to RMB32.7 million for the three months ended March 31, 2021, mainly due to the expansion of our online banking business.

**Other Components of Our Operating Income**

The following table sets forth other components of our operating income for the periods indicated.

| | For the three months ended March 31, | | | |
|---|---|---|---|---|
| | **2020** | **% of total** | **2021** | **% of total** |
| | *(in millions of RMB)* | | | |
| Net trading gains | 361.3 | 79.7% | 308.2 | 80.7% |
| Net gains on financial investments | 57.6 | 12.7% | 57.5 | 15.0% |
| Other operating income[(1)] | 34.7 | 7.6% | 16.6 | 4.3% |
| **Total** | **453.6** | **100.0%** | **382.3** | **100.0%** |

*Note:*
(1) Consisted primarily of rental income and government grants.

***Net Trading Gains***

Since January 1, 2018, our net trading gains consisted primarily of interest income and disposal gains of financial assets at fair value through profit or loss, exchange gains, and gains and losses from precious metals business. Our net trading gains decreased by 14.7% from RMB361.3 million for the three months ended March 31, 2020 to RMB308.2 million for the three months ended March 31, 2021, primarily due to the increase in the profit and losses on the changes in fair value of financial assets designated at fair value through investment income as a result of the significant decrease in market interests rates as affected by the pandemic in the first quarter of 2020, and the decrease in the profit and losses on the changes in fair value of financial assets designated at fair value through investment income as a result of the absence of significant fluctuation of market interest rates in the first quarter of 2021. The following table sets forth other components of our net trading gains for the years indicated.

| | For the three months ended March 31, | |
|---|---|---|
| | 2020 | 2021 |
| | *(in millions of RMB)* | |
| Net gains on financial assets held for trading | 333.9 | 265.2 |
| Exchange gains | 26.5 | 42.6 |
| Gains/(losses) on precious metal | 0.9 | 0.4 |
| **Total** | **361.3** | **308.2** |

***Net Gains on Financial Investments***

Net gains on financial investments consist primarily of interest income, dividend income from financial asset investments and gains from sale of debt instruments. Our net gains on financial investments remained relatively stable and slightly decreased from RMB57.6 million for the three months ended March 31, 2020 to RMB57.5 million for the three months ended March 31, 2021. The following table sets forth the components of net gains on financial investment.

| | For the three months ended March 31, | |
|---|---|---|
| | 2020 | 2021 |
| | *(in millions of RMB)* | |
| Net (losses)/gains on debt instrument investments at fair value through other comprehensive income | 29.5 | 55.4 |
| Net gains on other financial assets at fair value through profit or loss | 28.1 | 0.3 |
| Net losses on derecognition of financial assets at amortized cost | — | — |
| Dividend income from equity instruments | — | 1.8 |
| **Total** | **57.6** | **57.5** |

***Other Operating Incomes***

Other operating incomes mainly include gains from sale of fixed assets and rental income. For the three months ended March 31, 2020 and 2021, other operating incomes were RMB34.7 million and RMB16.6 million, respectively. The following table sets forth the principal components of our other operating incomes for the years indicated.

| | For the three months ended March 31, | |
|---|---|---|
| | 2020 | 2021 |
| | (in millions of RMB) | |
| Gains from sale of fixed assets[(1)] | 25.9 | 5.2 |
| Rental income | 4.0 | 6.9 |
| Government grants | 1.2 | 2.7 |
| Others | 3.6 | 1.8 |
| **Total** | **34.7** | **16.6** |

*Note:*

(1) Consisted primarily of our disposal of certain properties with relatively long useful lives, low net values and low values in use.

**Operating Expenses**

The following table sets forth the principal components of our total operating expenses for the periods indicated.

| | For the three months ended March 31, | | | |
|---|---|---|---|---|
| | 2020 | % of total | 2021 | % of total |
| | (in millions of RMB) | | | |
| Staff expense | 720.4 | 71.4% | 600.2 | 66.8% |
| Office and administrative expenses | 147.2 | 14.6% | 140.0 | 15.6% |
| Depreciation and amortization | 108.9 | 10.8% | 124.6 | 13.9% |
| Tax and surcharges | 29.1 | 2.9% | 28.1 | 3.1% |
| Auditors' remuneration | 0.2 | 0.0% | 0.8 | 0.0% |
| Other | 2.5 | 0.3% | 5.3 | 0.6% |
| **Total operating expenses** | **1,008.3** | **100.0%** | **899.0** | **100.0%** |

Our operating expenses decreased by 10.8% from RMB1,008.3 million for the three months ended March 31, 2020 to RMB899.0 million for the three months ended March 31, 2021. Our cost-to-income ratio (excluding tax expenses and surcharges) was 30.86% and 27.60% for the three months ended March 31, 2020 and 2021, respectively. Such decreases were primarily due to the decrease in staff salaries.

***Staff Expenses***

Staff expenses were the largest component of our operating expenses, representing 71.4% and 66.8% of our total operating expenses for the three months ended March 31, 2020 and 2021, respectively.

The following table sets forth the components of our staff costs for the periods indicated.

| | For the three months ended March 31, | | | |
|---|---|---|---|---|
| | 2020 | % of total | 2021 | % of total |
| | *(in millions of RMB)* | | | |
| Salaries, bonuses, allowances and subsidies | 560.7 | 77.8% | 443.6 | 73.9% |
| Social security and benefits | 104.7 | 14.5% | 123.7 | 20.6% |
| Enterprise annuity scheme | 35.2 | 4.9% | 24.0 | 4.0% |
| Labor union fees and employee education expenses | 19.8 | 2.8% | 8.9 | 1.5% |
| **Total staff costs** | **720.4** | **100.0%** | **600.2** | **100.0%** |

Staff expenses decreased by 16.7% from RMB720.4 million for the three months ended March 31, 2020 to RMB600.2 million for the three months ended March 31, 2021, primarily due to the decrease in salaries, bonuses, allowances and subsidies.

Salaries, bonuses, allowances and subsidies are the largest component of our staff expenses, representing 77.8% and 73.9% of our total staff costs for the three months ended March 31, 2020 and 2021, respectively. Salaries, bonuses, allowances and subsidies decreased by 20.9% from RMB560.7 million for the three months ended March 31, 2020 to RMB443.6 million for the three months ended March 31, 2021, primarily due to our continuous efforts on optimization of our salary system. In 2021, our Bank adopted a more refined performance appraisal system to improve operating efficiency and the performance bonus is more closely linked with the employees' performance to complete the business targets.

***Office and Administrative Expenses***

Office and administrative expenses represented 14.6% and 15.6% of our total operating expenses for the three months ended March 31, 2020 and 2021, respectively. Office and administrative expenses consisted primarily of business marketing expenses, electronic equipment operating costs, security expenses and insurance premiums. Office and administrative expenses remained relatively stable and slightly decreased by 4.9% from RMB147.2 million for the three months ended March 31, 2020 to RMB140.0 million for the three months ended March 31, 2021.

***Depreciation and Amortization***

Depreciation and amortization was mainly associated with depreciation of our property and equipment, and amortization of software, right-to-use assets, investment properties and long-term deferred expenses. Depreciation and amortization represented 10.8% and 13.9% of our total operating expenses for the three months ended March 31, 2020 and 2021, respectively. Depreciation and amortization increased by 14.4% from RMB108.9 million for the three months ended March 31, 2020 to RMB124.6 million for the three months ended March 31, 2021, primarily due to the consolidation of Chaoyang RCB in December 2020.

***Tax and Surcharges***

Tax and surcharges remained relatively stable and slightly decreased by 3.4% from RMB29.1 million for the three months ended March 31, 2020 to RMB28.1 million for the three months ended March 31, 2021.

**Expected Credit Losses and Asset Losses**

Expected credit loss is weighted average credit losses weighted by the probability of default, primarily including expected credit loss in our loans and advances to customers, financial investments, guarantees, financial assets held under resale agreements and deposits and placement with banks and other financial institutions. Our expected credit losses and asset losses decreased by 37.6% from RMB437.2 million for the three months ended March 31, 2020 to RMB272.6 million for the three months ended March 31, 2021, primarily due to the decrease of RMB169.9 million in allowance for expected credit losses, which was in turn resulted from the decrease in the amount and proportion of our non-normal loans in the first three months of 2021.

In addition, the expected credit loss of our financial investment decreased by 17.3% from RMB111.2 million for the three months ended March 31, 2020 to RMB92.0 million for the three months ended March 31, 2021, mainly due to the decrease in our non-credit asset investment with higher credit risk and our investment structure is gradually adjusted and optimized. In addition, we proactively identified potential risky financial investment assets in the previous two years so that the provision recognized was sufficient to cover the credit risk of such assets. The expected credit loss of customer loans and advances decreased by 59.3% from RMB286.5 million for the three months ended March 31, 2020 to RMB116.6 million for the three months ended March 31, 2021, mainly due to the decrease in allowance for expected credit losses, which was in turn resulted from the decrease in both amount and proportion of our NPLs.

The following table sets forth the components of our expected credit losses and asset losses for the years indicated.

| | For the three months ended March 31, | |
|---|---|---|
| | 2020 | 2021 |
| | *(in millions of RMB)* | |
| Financial investments | 111.2 | 92.0 |
| Loans and advances to customers | 286.5 | 116.6 |
| Credit commitments | (1.1) | 38.6 |
| Financial assets held under resale agreements and deposits and placements with banks and other financial institutions | 4.9 | 15.3 |
| Asset losses | — | — |
| Others[(1)] | 35.7 | 10.1 |
| **Total** | **437.2** | **272.6** |

*Note:*
(1) Mainly consisted of provisions for other assets.

**Income Tax Expenses**

The following table sets forth the reconciliation between the income tax expenses calculated at the statutory income tax rate applicable to our profit before tax and our actual income tax expenses for the periods indicated.

| | For the three months ended March 31, | |
|---|---|---|
| | 2020 | 2021 |
| | (in millions of RMB) | |
| **Profit before tax** | **1,733.9** | **2,000.1** |
| Income tax calculated at the tax rate of 25% | 433.5 | 500.0 |
| Impact of income not subject to tax(1) | (236.8) | (265.3) |
| Profit or loss attributable to associates | (1.6) | (3.9) |
| Non-deductible tax effect(2) | 11.3 | 10.2 |
| Derecognition of previously recognized deferred tax assets and others | — | — |
| Effect of preferential tax rate applicable to a subsidiary(3) | — | (0.1) |
| **Income tax expense** | **206.4** | **240.9** |

*Notes:*

(1) Mainly consisted of interest income from debt securities issued by PRC governments, which is non-taxable in accordance with PRC tax regulations.

(2) Mainly consisted of expenditures in excess of limitation of tax deduction in accordance with PRC tax regulations.

(3) Referred to our controlled subsidiary, Hezhou Babu Dongying County Bank, which was subject to a reduced income tax rate at 15% as it qualified in industries encouraged to develop in the western region of the PRC.

Our income tax expenses increased by 16.7% from RMB206.4 million for the three months ended March 31, 2020 to RMB240.9 million for the three months ended March 31, 2021, which is mainly attributable to the increase in profit before tax. Our effective income tax rate was 11.9% and 12.0% for the three months ended March 31, 2020 and 2021, respectively.

The following table sets forth, for the periods indicated, the components of our income tax expenses.

| | For the three months ended March 31, | |
|---|---|---|
| | 2020 | 2021 |
| | (in millions of RMB) | |
| Current income tax | 171.0 | 247.4 |
| Deferred income tax | 35.4 | (6.5) |
| **Total income tax expenses** | **206.4** | **240.9** |

**Net Profit**

Primarily as a result of all the foregoing factors, our net profit increased by 15.2% from RMB1,527.5 million for the three months ended March 31, 2020 to RMB1,759.2 million for the three months ended March 31, 2021.

**Other Comprehensive Income/(Losses)**

| | For the three months ended March 31, | |
|---|---|---|
| | 2020 | 2021 |
| | *(in millions of RMB)* | |
| **Items which may be reclassified to profit or loss** | | |
| Changes in fair value of financial assets at fair value through other comprehensive income | 690.6 | (220.6) |
| Credit impairment provision for financial assets at fair value through other comprehensive income | 105.9 | 103.9 |
| Impact on income tax on changes in fair value and credit impairment provision of financial assets at fair value through other comprehensive income | (199.1) | 29.2 |
| **Items will not be reclassified to profit or loss** | | |
| Changes in fair value of equity instruments designated at fair value through other comprehensive income | (7.4) | 3.0 |
| Impact on income tax on changes in fair value of equity instruments designated at fair value through other comprehensive income | 1.8 | (0.8) |
| **Other Comprehensive Income/(Losses)** | 591.8 | **(85.3)** |

Our financial assets measured at fair value through other comprehensive income primarily consist of re-discounted bills, debt securities, rights to earnings on credit assets, wealth management products for direct financing and unlisted equity investments. We recorded a gain from changes in fair value of financial assets at fair value through other comprehensive income at the amount of RMB690.6 million in the three months ended March 31, 2020 and a loss from changes in fair value of financial assets at fair value through other comprehensive income at the amount of RMB220.6 million in the three months ended March 31, 2021. Such fluctuation was mainly attributable to the increase in the prevailing interest rate of debt securities in the three months ended March 31, 2021 as compared with that in the three months ended March 31, 2020, which resulted in the decrease in the fair value of our financial assets. We incurred impairment losses of RMB105.9 million and RMB103.9 million on such financial assets in the three months ended March 31, 2020 and 2021, respectively, in accordance with the expected credit loss model under IFRS 9, which remained relatively stable for the three months ended March 31, 2020 and 2021.

**RESULTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2020**

**Net Interest Income**

We generated the majority of our operating income from net interest income for the years ended December 31, 2019 and 2020, which represented 74.6% and 82.4% of our operating income of the same years, respectively.

The following table sets forth our interest income, interest expense and net interest income for the periods indicated.

| | For the years ended December 31, | |
|---|---|---|
| | 2019 | 2020 |
| | (in millions of RMB) | |
| Interest income | 17,353.1 | 19,517.6 |
| Interest expense | (8,551.9) | (9,585.2) |
| **Net interest income** | **8,801.2** | **9,932.4** |

Our net interest income increased by 12.9% from RMB8,801.2 million for the year ended December 31, 2019 to RMB9,932.4 million for the year ended December 31, 2020, primarily due to a 12.5% increase in our interest income.

The following table sets forth the average balances of our interest-earning assets and interest-bearing liabilities, the related interest income or expense and the related average yields on assets or related average costs of liabilities for the periods indicated.

| | For the years ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2019 | | | 2020 | | |
| | Average balance | Interest income/ expense | Average yield/ cost(1) | Average balance | Interest income/ expense | Average yield/ cost(1) |
| | (in millions of RMB, except percentages) | | | | | |
| **Interest-earning assets** | | | | | | |
| Loans and advances to customers | 185,401.4 | 10,149.5 | 5.47% | 229,066.7 | 12,728.3 | 5.56% |
| Financial investments | 159,621.6 | 6,256.6 | 3.92% | 178,416.0 | 5,980.8 | 3.35% |
| Deposits with central bank | 37,885.6 | 462.6 | 1.22% | 28,746.5 | 431.1 | 1.50% |
| Financial assets held under resale agreements and deposits and placements with banks and other financial institutions | 20,270.2 | 484.4 | 2.39% | 24,192.2 | 377.4 | 1.56% |
| **Total interest-earning assets** | **403,178.8** | **17,353.1** | **4.30%** | **460,421.4** | **19,517.6** | **4.24%** |
| **Interest-bearing liabilities** | | | | | | |
| Deposits from customers | 280,198.0 | 5,125.4 | 1.83% | 330,883.3 | 6,465.2 | 1.95% |
| Debt securities issued | 54,981.8 | 1,891.2 | 3.44% | 60,704.0 | 1,778.2 | 2.93% |
| Financial assets sold under repurchase agreements and deposits and placements from banks and other financial institutions | 50,783.0 | 1,470.2 | 2.90% | 44,960.6 | 1,002.2 | 2.23% |
| Borrowings from central banks | 1,471.7 | 40.5 | 2.75% | 10,637.1 | 322.5 | 3.03% |
| Leasing liability | 478.2 | 24.6 | 5.12% | 453.6 | 17.1 | 3.79% |
| **Total interest-bearing liabilities** | **387,912.7** | **8,551.9** | **2.20%** | **447,638.6** | **9,585.2** | **2.14%** |
| **Net interest income** | | 8,801.2 | | | 9,932.4 | |
| **Net interest spread(2)** | | | 2.10% | | | 2.10% |
| **Net interest margin(3)** | | | 2.18% | | | 2.16% |

*Notes:*

(1) Calculated by dividing interest income/expense by the average balance.

(2) Calculated as the difference between the average yield on total interest-earning assets and the average cost of total interest-bearing liabilities.

(3) Calculated by dividing net interest income by the average balance of total interest-earning assets.

The following table sets forth the allocation of changes in our interest income and interest expense due to changes in volume and changes in rate for the periods indicated. Changes in volume are measured by changes in the average balances and changes in rate are measured by changes in the average rates. Changes caused by both volume and rate have been allocated to changes in volume.

| | For the years ended December 31, | | |
|---|---|---|---|
| | 2020 vs. 2019 | | |
| | Increase/ (decrease) due to | | Net increase/ (decrease)[3] |
| | Volume[1] | Rate[2] | |
| | *(in millions of RMB)* | | |
| **Interest-earning assets** | | | |
| Deposits with central bank[4] | (111.6) | 80.1 | (31.5) |
| Financial assets held under resale agreements and deposits and placements with banks and other financial institutions | 93.7 | (200.7) | (107.0) |
| Loans and advances to customers | 2,390.4 | 188.4 | 2,578.8 |
| Financial investments[5] | 736.7 | (1,012.5) | (275.8) |
| **Changes in interest income** | 3,109.2 | (944.7) | 2,164.5 |
| **Interest-bearing liabilities** | | | |
| Borrowing from central bank | 252.4 | 29.6 | 282.0 |
| Financial assets sold under repurchase agreements and deposits and placements from banks and other financial institutions | (168.6) | (299.4) | (468.0) |
| Deposits from customers | 927.1 | 412.7 | 1,339.8 |
| Debt securities issued[6] | 196.8 | (309.8) | (113.0) |
| Lease liabilities | (1.3) | (6.2) | (7.5) |
| **Changes in interest expense** | 1,206.4 | (173.1) | 1,033.3 |
| **Changes in net interest income** | 1,902.8 | (771.6) | 1,131.2 |

*Notes:*

(1) Represents the average balance for the period minus the average balance for the previous period, multiplied by the average yield/cost of the previous year.

(2) Represents the average yield/cost for the period minus the average yield/cost for the previous year, multiplied by the average balance for the period.

(3) Represents interest income/expense for the period minus interest income/expense for the previous period.

(4) Consisted primarily of statutory deposit reserves and surplus deposit reserves.

(5) Consisted primarily of interest-earning financial investments at amortized costs and financial investments at fair value through other comprehensive income. Since interest income from financial assets at fair value through profit or loss is regarded as trading gains under IFRS 9, financial assets at fair value through profit or loss are excluded for the purpose of the above table.

(6) Consisted primarily of interbank certificates of deposits, tier-two capital debt securities, green financial debt securities, Sannong financial bonds and SME financial bonds.

*Interest Income*

The following table sets forth the breakdown of our interest income for the periods indicated.

| | For the years ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2019 | | | 2020 | | |
| | Amount | % of total | Average yield | Amount | % of total | Average yield |
| | (in millions of RMB, except percentages) | | | | | |
| **Interest income from** | | | | | | |
| Loans and advances to customers | 10,149.5 | 58.5% | 5.47% | 12,728.3 | 65.3% | 5.56% |
| Financial investments | 6,256.6 | 36.1% | 3.92% | 5,980.8 | 30.6% | 3.35% |
| Deposits with central bank | 462.6 | 2.6% | 1.22% | 431.1 | 2.2% | 1.50% |
| Financial assets held under resale agreements and deposits and placements with banks and other financial institutions | 484.4 | 2.8% | 2.39% | 377.4 | 1.9% | 1.56% |
| **Total interest income** | **17,353.1** | **100.0%** | **4.30%** | **19,517.6** | **100.0%** | **4.24%** |

Our interest income increased by 12.5% from RMB17,353.1 million for the year ended December 31, 2019 to RMB19,517.6 million for the year ended December 31, 2020, primarily due to a 14.2% increase in the average balance of our interest-earning assets from RMB403,178.8 million for the year ended December 31, 2019 to RMB460,421.4 million for the year ended December 31, 2020, partially offset by the slight decrease of average yield from 4.30% to 4.24% for the same year, respectively.

*Interest Income from Loans and Advances to Customers*

Interest income from loans and advances to customers accounted for 58.5% and 65.3% of our total interest income for the years ended December 31, 2019 and 2020, respectively.

Our loans and advances to customers consisted of corporate loans and advances, personal loans and advances and discounted bills. The following table sets forth the daily average balance, interest income and average yield for each component of our loans and advances to customers for the years indicated.

| | For the years ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2019 | | | 2020 | | |
| | Average balance | Interest income | Average yield | Average balance | Interest income | Average yield |
| | (in millions of RMB, except percentages) | | | | | |
| Corporate loans and advances | 101,677.5 | 6,647.3 | 6.54% | 133,068.1 | 7,460.9 | 5.61% |
| Personal loans and advances | 65,008.0 | 2,917.4 | 4.49% | 78,384.5 | 4,813.9 | 6.14% |
| Discounted bills | 18,715.9 | 584.8 | 3.12% | 17,614.1 | 453.5 | 2.57% |
| **Total** | **185,401.4** | **10,149.5** | **5.47%** | **229,066.7** | **12,728.3** | **5.56%** |

Our interest income from loans and advances to customers increased by 25.4% from RMB10,149.5 million for the year ended December 31, 2019 to RMB12,728.3 million for the year ended December 31, 2020, primarily due to the increase in the aggregate loan amount we granted to our customers, evidenced by the increase in the average balance of our total loans and advances to customers from RMB185,401.4 million for the year ended December 31, 2019 to RMB229,066.7 million for the year ended December 31, 2020. The average yield on our loans and advances to customers remained relatively stable at 5.47% and 5.56%, respectively, for the years ended December 31, 2019 and 2020.

*Corporate Loans and Advances.* Interest income from corporate loans and advances was the largest component of our interest income from loans and advances to customers, representing 65.5% and 58.6% of our total interest income from loans and advances to customers for the years ended December 31, 2019 and 2020, respectively.

Our interest income from corporate loans and advances increased by 12.2% from RMB6,647.3 million for the year ended December 31, 2019 to RMB7,460.9 million for the year ended December 31, 2020. The average balance of our corporate loans and advances increased by 30.9% from RMB101,677.5 million for the year ended December 31, 2019 to RMB133,068.1 million for the year ended December 31, 2020. The average yield on our corporate loans and advances decreased from 6.54% for the year ended December 31, 2019 to 5.61% for the year ended December 31, 2020, primarily due to the decrease in the prevailing interest rates in response to the COVID-19 economic recovery policy.

*Personal Loans and Advances.* Interest income from personal loans and advances accounted for 28.7% and 37.8% of our total interest income from loans and advances to customers for the years ended December 31, 2019 and 2020, respectively.

Interest income from personal loans and advances increased by 65.0% from RMB2,917.4 million for the year ended December 31, 2019 to RMB4,813.9 million for the year ended December 31, 2020, mainly due to the increase in both average balance and average yield. The average balance of our personal loans and advances increased by 20.6% from RMB65,008.0 million for the year ended December 31, 2019 to RMB78,384.5 million for the year ended December 31, 2020, primarily due to our effort to expand our personal loan business. The average yield on our personal loans and advances increased from 4.49% for the year ended December 31, 2019 to 6.14% for the year ended December 31, 2020, primarily due to increase in amount and proportion of online loans with higher yield compared with loans granted offline.

*Discounted bill.* Interest income from discounted bill accounted for 5.8% and 3.6% of our total interest income from loans and advances to customers for the years ended December 31, 2019 and 2020, respectively.

Interest income from discounted bill decreased by 22.5% from RMB584.8 million for the year ended December 31, 2019 to RMB453.5 million for the year ended December 31, 2020, primarily due to: (i) the decrease in average yields from 3.12% for the year ended December 31, 2019 to 2.57% for the year ended December 31, 2020, which was in turn primarily due to the decrease in prevailing market interest rates; and (ii) the average balance of discounted bill decreased by 5.9% from RMB18,715.9 million for the year ended December 31, 2019 to RMB17,614.1 million for the year ended December 31, 2020.

*Interest Income from Financial Investments*

Interest income from financial investments represented 36.1% and 30.6% of our total interest income for the years ended December 31, 2019 and 2020, respectively.

Our interest income from financial investments decreased by 4.4% from RMB6,256.6 million for the year ended December 31, 2019 to RMB5,980.8 million for the year ended December 31, 2020, which was primarily due to the more prudent investment policy we adopted to allocate more funds to standard financial instruments which have relatively lower yields. The decrease in interest income from financial investment was partially offset by the increase in average balance of our financial investments increased by 11.8% from RMB159,621.6 million for the year ended December 31, 2019 to RMB178,416.0 million as at December 31, 2020, primarily due to increase in our investment in financial instrument, which was in turn driven by the growth of deposits in 2020 and the consequent increase in available funds for financial investment.

The following table sets forth a breakdown of the average balances and interest income of debt securities investment, rights to earnings on credit assets, wealth management direct financing instruments as well as their respective average yields for the years indicated:

| | For the years ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2019 | | | 2020 | | |
| | Average balance | Interest income | Average yield | Average balance | Interest income | Average yield |
| | (in millions of RMB, except percentages) | | | | | |
| **Interest income from financial investments** | | | | | | |
| Debt securities investment | 136,104.1 | 5,057.2 | 3.72% | 172,309.1 | 5,623.7 | 3.26% |
| Rights to earnings on credit assets | 15,495.2 | 716.4 | 4.62% | 2,944.2 | 151.5 | 5.15% |
| Wealth management instruments for direct financing | 8,022.3 | 483.0 | 6.02% | 3,162.7 | 205.6 | 6.50% |
| **Total** | **159,621.6** | **6,256.6** | **3.92%** | **178,416.0** | **5,980.8** | **3.35%** |

The substantial majority of our interest income from financial investments for the years ended December 31, 2019 and 2020 was generated from investment in debt securities, which represented 80.8% and 94.1% of our total interest income from financial investment, respectively. The average yields of our investment in debt securities decreased from 3.72% in 2019 to 3.26% in 2020, mainly due to the increase in funds allocated to debt securities with relatively lower yields, such as treasury bonds and local municipal bonds, as we adopted more prudent investment policy.

The interest income of rights to earnings on credit assets in 2019 and 2020 represented 11.5% and 2.5%, respectively, of our interest income from financial investments. The average yields of our rights to earnings on credit assets increased from 4.62% for the year ended December 31, 2019 to 5.15% for the year ended December 31, 2020, mainly due to the higher average yield of rights to earnings on the outstanding credit assets.

The interest income of wealth management instruments for direct financing in 2019 and 2020 represented 7.7% and 3.4% of our interest income from financial investment, respectively. The average yields of our wealth management direct financing instruments increased from 6.02% in 2019 to 6.50% in 2020, mainly due to the higher average yield of the outstanding wealth management instruments for direct financing.

For a breakdown of the balances of our financial investments by business model and cashflow characteristics as of December 31, 2019 and 2020 and their corresponding components, please see "Assets and Liabilities — Assets — Financial Assets — Distribution by Business Model and Cashflow Characteristics".

*Interest Income from Deposits with Central Bank*

Interest income from deposits with central bank represented 2.6% and 2.2% of our interest income for the years ended December 31, 2019 and 2020, respectively.

Our interest-earning assets balances of our deposits with central bank consist primarily of statutory deposit reserves and surplus deposit reserves with PBoC. Statutory deposit reserves represent the minimum level of cash deposits that we are required to maintain at PBoC, calculated as a percentage of the balance of our general deposits from customers. Surplus deposit reserves are deposits with PBoC in excess of statutory deposit reserves, which we maintain with PBoC for clearing purposes.

Our interest income from deposits with central bank decreased by 6.8% from RMB462.6 million for the year ended December 31, 2019 to RMB431.1 million for the year ended December 31, 2020, primarily due to the average balance of our deposits with central bank decreased by 24.1% from RMB37,885.6 million for the year ended December 31, 2019 to RMB28,746.5 million for the year ended December 31, 2020, which was in turn resulted from the lower RMB statutory deposit reserve ratios from 9.5% as of December 31, 2019 to 7.5% as of December 31, 2020. The average yields of our deposits with central bank increased from 1.22% for the year ended December 31, 2019 to 1.50% for the year ended December 31, 2020, primarily due to the decrease in the proportion of surplus deposits reserve which had lower yield.

*Interest Income from Financial Assets Held under Resale Agreements and Deposits and Placements with Banks and Other Financial Institutions*

Interest income from financial assets held under resale agreements and deposits and placements with banks and other financial institutions represented 2.8% and 1.9% of our interest income for the years ended December 31, 2019 and 2020, respectively.

Our interest income from financial assets held under resale agreements and deposits and placements with banks and other financial institutions decreased by 22.1% from RMB484.4 million for the year ended December 31, 2019 to RMB377.4 million for the year ended December 31, 2020, primarily due to the average yield on these financial assets held under resale agreements and deposits and placements with banks and other financial institutions decreased from 2.39% for the year ended December 31, 2019 to 1.56% for the year ended December 31, 2020, primarily due to the lower prevailing interest rates in the money market, which was partially offset by the increase in the average balance by 19.3% from RMB20,270.2 million to RMB24,192.2 million, respectively, for the same years. Such increase in the average balance of financial assets held under resale agreements and deposits and placements with banks and other financial institutions was in turn resulted from the growth of deposits in 2020 and the consequent increase in available funds for financial investment.

***Interest Expense***

The following table sets forth the breakdown of our interest expense for the periods indicated.

| | For the years ended December 31, | | | |
|---|---|---|---|---|
| | 2019 | | 2020 | |
| | Amount | % of total | Amount | % of total |
| | *(in millions of RMB, except percentages)* | | | |
| **Interest expense on** | | | | |
| Deposits from customers | 5,125.4 | 59.9% | 6,465.2 | 67.4% |
| Debt Securities Issued | 1,891.2 | 22.1% | 1,778.2 | 18.6% |
| Financial assets sold under repurchase agreements and deposits and placements from banks and other financial institutions | 1,470.2 | 17.2% | 1,002.2 | 10.5% |
| Borrowings from central banks | 40.5 | 0.5% | 322.5 | 3.4% |
| Lease liabilities | 24.6 | 0.3% | 17.1 | 0.2% |
| **Total interest expense** | **8,551.9** | **100.0%** | **9,585.2** | **100.0%** |

Our interest expense increased by 12.1% from RMB8,551.9 million for the year ended December 31, 2019 to RMB9,585.2 million for the year ended December 31, 2020, primarily due to an increased average balance of total interest-bearing liabilities by 15.4% from RMB387,912.7 million to RMB447,638.6 million, respectively, for the same years, which was partially resulted from the increase of deposits from our customers. The increase was partially offset by a decrease in average cost from 2.20% as of December 31, 2019 to 2.14% as of December 31, 2020, resulting from the lower prevailing market rate.

*Interest Expense on Deposits from Customers*

Deposits from customers are our primary source of funding. Interest expense on deposits from customers represented 59.9% and 67.4% of our total interest expense for the years ended December 31, 2019 and 2020, respectively.

The following table sets forth the daily average balance, interest expense and average cost of our customer deposits by product type for the periods indicated.

| | For the years ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2019 | | | 2020 | | |
| | Average balance | Interest expense | Average cost | Average balance | Interest expense | Average cost |
| | (in millions of RMB, except percentages) | | | | | |
| **Corporate deposits** | | | | | | |
| Demand | 66,886.0 | 482.7 | 0.72% | 71,032.2 | 545.2 | 0.77% |
| Time | 47,859.3 | 1,869.9 | 3.91% | 66,798.5 | 2,479.8 | 3.71% |
| Subtotal | 114,745.3 | 2,352.6 | 2.05% | 137,830.7 | 3,025.0 | 2.19% |
| **Personal deposits** | | | | | | |
| Demand | 87,168.9 | 481.5 | 0.55% | 95,290.0 | 538.2 | 0.56% |
| Time | 78,283.8 | 2,291.3 | 2.93% | 97,762.6 | 2,902.0 | 2.97% |
| Subtotal | 165,452.7 | 2,772.8 | 1.68% | 193,052.6 | 3,440.2 | 1.78% |
| **Total deposits from customers** | **280,198.0** | **5,125.4** | **1.83%** | **330,883.3** | **6,465.2** | **1.95%** |

Our interest expense on deposits from customers increased by 26.1% from RMB5,125.4 million for the year ended December 31, 2019 to RMB6,465.2 million for the year ended December 31, 2020, primarily due to (i) an increase in the average cost of our customer deposits from 1.83% to 1.95% for the same years, which in turn was a result of the increase of deposit cost due to competition in the industry; and (ii) an increase in the average balance of our customer deposits by 18.1% from RMB280,198.0 million for the year ended December 31, 2019 to RMB330,883.3 million for the year ended December 31, 2020, primarily due to increased amount of deposits from our customers.

*Interest Expense on Financial Assets Sold under Repurchase Agreements and Deposits and Placements from Banks and Other Financial Institutions*

Interest expense on financial assets sold under repurchase agreements and deposits and placements from banks and other financial institutions represented 17.2% and 10.5% of our interest expense for the years ended December 31, 2019 and 2020, respectively.

Our interest expense on financial assets sold under repurchase agreements and deposits and placements from banks and other financial institutions decreased from RMB1,470.2 million for the year ended December 31, 2019 to RMB1,002.2 million for the year ended December 31, 2020, primarily due to decreases in prevailing market interest rates and a 11.5% decrease in the average balance of financial assets sold under repurchase agreements and deposits and placements from banks and other financial institutions from RMB50,783.0 million to RMB44,960.6 million, respectively, for the same years, which was in turn primarily due to the decrease of interbank liabilities including the deposits from other domestic financial institutions, as we obtained certain medium-to-long-term and stable liabilities from the central bank through medium-term lending facility bidding.

*Interest Expense on Debt Securities Issued*

Interest expense on debt securities issued represented 22.1% and 18.6% of our interest expense for the years ended December 31, 2019 and 2020, respectively.

Our interest expense on debt securities issued decreased by 6.0% from RMB1,891.2 million for the year ended December 31, 2019 to RMB1,778.2 million for the year ended December 31, 2020, primarily due to lower interest rate of interbank certificates of deposits we issued in 2020 when compared with 2019, resulting from the lower capital market rates as a result of the loose liquidity in general.

*Interest Expenses on Borrowings from Central Bank*

Interest expense on borrowings from central bank represented 0.5% and 3.4% of our interest expense for the years ended December 31, 2019 and 2020, respectively.

Our interest expense on borrowing from the central bank increased by 696.3% from RMB40.5 million for the year ended December 31, 2019 to RMB322.5 million for the year ended December 31, 2020, primarily because our Bank actively participated in PBoC's medium-term lending facility bidding and acquired long-term and stable liabilities through borrowing from the central bank under the central bank's liquidity support policy in 2020.

***Net Interest Spread and Net Interest Margin***

Net interest spread is the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities. Net interest margin is the ratio of net interest income to the average balance of total interest-earning assets.

Our net interest spread remained the same at 2.10% for the years ended December 31, 2019 and 2020. Our net interest margin decreased from 2.18% for the year ended December 31, 2019 to 2.16% for the year ended December 31, 2020. The decrease in net interest margin was due to lower prevailing market rates.

**Net Fee and Commission Income**

Net fee and commission income represented 8.9% and 7.8% of our total operating income for the years ended December 31, 2019 and 2020, respectively. The following table sets forth the principal components of our net fee and commission income for the periods indicated.

| | For the years ended December 31, | |
|---|---|---|
| | **2019** | **2020** |
| | *(in millions of RMB)* | |
| **Fee and commission income** | | |
| Bank card services | 447.8 | 350.4 |
| Custodian and other fiduciary services | 184.2 | 187.7 |
| Wealth management agency services | 459.3 | 328.7 |
| Settlement and clearing services | 44.6 | 56.6 |
| Others | 48.2 | 71.7 |
| Subtotal | 1,184.1 | 995.1 |
| **Fee and commission expenses** | **(129.3)** | **(54.7)** |
| **Net fee and commission income** | **1,054.8** | **940.4** |

Our net fee and commission income decreased by 10.8% from RMB1,054.8 million for the year ended December 31, 2019 to RMB940.4 million for the year ended December 31, 2020.

***Fee and Commission Income***

Our fee and commission income decreased by 16.0% from RMB1,184.1 million for the year ended December 31, 2019 to RMB995.1 million for the year ended December 31, 2020. The decrease was mainly due to a 28.4% decrease of income from wealth management agency fee from RMB459.3 million for the year ended December 31, 2019 to RMB328.7 million for the year ended December 31, 2020.

*Bank Card Service Fees*

Bank card service fees consisted primarily of transaction fees on the payment made with our bank cards. Bank card service fees decreased by 21.8% from RMB447.8 million for the year ended December 31, 2019 to RMB350.4 million for the year ended December 31, 2020, primarily due to the downward adjustment of bank card service fees in response to the market competition and to support rural vitalization.

*Custodian and Other Fiduciary Service Fees*

Custodian and other fiduciary service fees consisted primarily of fees earned on agency services for sales of insurances and other products issued by third parties. Custodian and other fiduciary service fees increased by 1.9% from RMB184.2 million for the year ended December 31, 2019 to RMB187.7 million for the year ended December 31, 2020, which remained relatively stable.

*Wealth Management Agency Service Fee*

Wealth management agency service fees consist primarily of fees and commissions received for wealth management agency services provided to our customers. Our wealth management agency service fees decreased by 28.4% from RMB459.3 million for the year ended December 31, 2019 to RMB328.7 million for the year ended December 31, 2020, primarily due to narrowed interest rate spreads as a result of slower growth in the scale of wealth management business during the transitional period of net value after the implementation of Asset Management Guiding Opinion.

*Settlement and Clearing Services Fee*

Settlement and clearing services fees consisted primarily of fees earned on settlement and clearing services in respect of bank acceptance bills, promissory notes and cheques, as well as fees earned on money transfers and clearing services. Settlement can be effectuated through our branch offices, automatic terminals or via internet and mobile banking. Our settlement fees and clearing service fee increased by 26.9% from RMB44.6 million for the year ended December 31, 2019 to RMB56.6 million for the year ended December 31, 2020, which remained relatively stable.

***Fee and Commission Expense***

Fee and commission expenses consist primarily of fees paid to third parties in connection with our fee and commission-based services that can be directly allocated to the provision of such services. Our fee and commission expenses decreased by 57.7% from RMB129.3 million for the year ended December 31, 2019 to RMB54.7 million for the year ended December 31, 2020.

**Other Components of Our Operating Income**

The following table sets forth other components of our operating income for the periods indicated.

| | For the years ended December 31, | | | |
|---|---|---|---|---|
| | 2019 | % of total | 2020 | % of total |
| | *(in millions of RMB)* | | | |
| Net trading gains | 1,133.3 | 58.4% | 881.3 | 75.0% |
| Net gains on financial investments | 462.9 | 23.9% | 181.9 | 15.5% |
| Other operating income[(1)] | 343.0 | 17.7% | 111.0 | 9.5% |
| **Total** | **1,939.2** | **100.0%** | **1,174.2** | **100.0%** |

*Note:*
(1) Consisted primarily of rental income and government grants.

***Net Trading Gains***

Since January 1, 2018, our net trading gains consisted primarily of interest income and disposal gains of financial assets at fair value through profit or loss, exchange gains, and gains and losses from precious metals business. Our net trading gains decreased by 22.2% from RMB1,133.3 million for the year ended December 31, 2019 to RMB881.3 million for the year ended December 31, 2020, primarily due to the decrease in changes in the fair value of debt securities and fund investments we invested as a result of increased interest rates of debt securities market in 2020. The following table sets forth other components of our net trading gains for the years indicated.

| | For the years ended December 31, | |
|---|---|---|
| | 2019 | 2020 |
| | *(in millions of RMB)* | |
| Net gains on financial assets held for trading | 1,045.7 | 779.1 |
| Exchange gains | 86.7 | 104.5 |
| Gains/(losses) on precious metal | 0.9 | (2.3) |
| **Total** | **1,133.3** | **881.3** |

***Net Gains on Financial Investments***

Net gains on financial investments consist primarily of interest income, dividend income from financial asset investments and gains from sale of debt instruments. Our net gains on financial investments decreased from RMB462.9 million for the year ended December 31, 2019 to RMB181.9 million for the year ended December 31, 2020, primarily attributable to the decrease of revenue due to changes in the valuation of financial investment assets. The following table sets forth the components of net gains on financial investment.

| | For the years ended December 31, | |
|---|---|---|
| | **2019** | **2020** |
| | *(in millions of RMB)* | |
| Net (losses)/gains on debt instrument investments at fair value through other comprehensive income | 278.1 | 384.3 |
| Net gains on other financial assets at fair value through profit or loss | 141.3 | (239.8) |
| Net losses on derecognition of financial assets at amortized cost | — | 3.1 |
| Dividend income from equity instruments | 43.5 | 34.3 |
| **Total** | **462.9** | **181.9** |

***Other Operating Incomes***

Other operating incomes mainly include gains from sale of fixed assets and rental income. In 2019 and 2020, other operating incomes were RMB343.0 million and RMB111.0 million, respectively. The following table sets forth the principal components of our other operating incomes for the years indicated.

| | For the years ended December 31, | |
|---|---|---|
| | **2019** | **2020** |
| | *(in millions of RMB)* | |
| Gains from sale of fixed assets(1) | 296.4 | 73.5 |
| Rental income | 33.9 | 24.4 |
| Government grants | 9.1 | 1.8 |
| Others | 3.6 | 11.3 |
| **Total** | **343.0** | **111.0** |

*Note:*

(1) Consisted primarily of our disposal of certain properties with relatively long useful lives, low net values and low values in use.

**Operating Expenses**

The following table sets forth the principal components of our total operating expenses for the periods indicated.

| | For the years ended December 31, | | | |
|---|---|---|---|---|
| | 2019 | % of total | 2020 | % of total |
| | | *(in millions of RMB)* | | |
| Staff expense | 2,402.2 | 67.9% | 2,718.8 | 69.3% |
| Office and administrative expenses | 615.5 | 17.4% | 696.3 | 17.7% |
| Depreciation and amortization | 320.2 | 9.1% | 351.1 | 8.9% |
| Tax and surcharges | 134.3 | 3.8% | 128.3 | 3.3% |
| Auditors' remuneration | 3.6 | 0.1% | 3.7 | 0.1% |
| Other | 60.0 | 1.7% | 26.7 | 0.7% |
| **Total operating expenses** | **3,535.8** | **100.0%** | **3,924.9** | **100.0%** |

Our operating expenses increased by 11.0% from RMB3,535.8 million for the year ended December 31, 2019 to RMB3,924.9 million for the year ended December 31, 2020, primarily attributable to an increase in staff expenses. Our cost-to-income ratio (excluding tax expenses and surcharges) was 28.84% and 31.51% for the years ended December 31, 2019 and 2020, respectively. The increase in our cost-to-income ratio was primarily attributable to the acquisition of Zhanjiang RCB, which had higher cost-to-income ratio than our Group. Consolidation of Zhangjiang RCB's cost and income in 2020 into the financial statements of the Group, resulted in higher average cost-to-income ratio of the Group in 2020.

***Staff Expenses***

Staff expenses were the largest component of our operating expenses, representing 67.9% and 69.3% of our total operating expenses for the years ended December 31, 2019 and 2020, respectively.

The following table sets forth the components of our staff costs for the periods indicated.

| | For the years ended December 31, | | | |
|---|---|---|---|---|
| | 2019 | % of total | 2020 | % of total |
| | | *(in millions of RMB)* | | |
| Salaries, bonuses, allowances and subsidies | 1,753.0 | 73.0% | 2,005.1 | 73.7% |
| Social security and benefits | 434.2 | 18.0% | 475.7 | 17.5% |
| Enterprise annuity scheme | 139.0 | 5.8% | 152.4 | 5.6% |
| Labor union fees and employee education expenses | 76.0 | 3.2% | 85.6 | 3.2% |
| **Total staff costs** | **2,402.2** | **100.0%** | **2,718.8** | **100.0%** |

Staff expenses increased by 13.2% from RMB2,402.2 million for the year ended December 31, 2019 to RMB2,718.8 million for the year ended December 31, 2020, primarily due to growth of the size of our work force and salary level.

Salaries, bonuses, allowances and subsidies are the largest component of our staff expenses, representing 73.0% and 73.7% of our total staff costs for the years ended December 31, 2019 and 2020, respectively.

Salaries, bonuses, allowances and subsidies increased by 14.4% from RMB1,753.0 million for the year ended December 31, 2019 to RMB2,005.1 million for the year ended December 31, 2020, primarily due to growth of the size of our work force and salary level.

***Office and Administrative Expenses***

Office and administrative expenses represented 17.4% and 17.7% of our total operating expenses for the years ended December 31, 2019 and 2020, respectively. Office and administrative expenses consisted primarily of business marketing expenses, electronic equipment operating costs, security expenses and insurance premiums. Office and administrative expenses increased by 13.1% from RMB615.5 million for the year ended December 31, 2019 to RMB696.3 million for the year ended December 31, 2020, primarily due to an increase of advertising and business promotion costs and the consolidation of the expenses related to of our subsidiary Zhanjiang RCB throughout the year in 2020.

***Depreciation and Amortization***

Depreciation and amortization was mainly associated with depreciation of our property and equipment, and amortization of software, right-to-use assets, investment properties and long-term deferred expenses. Depreciation and amortization represented 9.1% and 8.9% of our total operating expenses for the years ended December 31, 2019 and 2020, respectively. Depreciation and amortization increased by 9.7% from RMB320.2 million for the year ended December 31, 2019 to RMB351.1 million for the year ended December 31, 2020, primarily due to the consolidation of Zhanjiang RCB throughout the year in 2020.

***Tax and Surcharges***

Tax and surcharges decreased by 4.5% from RMB134.3 million for the year ended December 31, 2019 to RMB128.3 million for the year ended December 31, 2020, primarily due to the overall change in tax and surcharges was not significant due to an increase in our VAT revenue and a decrease in related surcharges.

**Expected Credit Losses and Asset Losses**

Expected credit loss is weighted average credit losses weighted by the probability of default, primarily including expected credit loss in our loans and advances to customers, financial investments, guarantees, financial assets held under resale agreements and deposits and placement with banks and other financial institutions. Our expected credit losses and asset losses increased by 7.0% from RMB2,593.5 million for the year ended December 31, 2019 to RMB2,774.3 million for the year ended December 31, 2020, primarily due to the purchase of certain non-credit asset. In particular, we acquired from a state-owned asset management company the rights to earnings of certain non-performing collateralized loans secured by real estate properties, non-performing guaranteed loans and foreclosed real estate collateral of Chaoyang RCCU and recognized an asset loss of RMB2,298.2 million based on the results of the fair value assessment of the acquired assets. For details, please see "History, Development and Corporate Structure — Material Acquisition during the Track Record Period — Establishment of Chaoyang RCB — Acquisition of non-performing assets of Chaoyang RCCU" in the prospectus.

In addition, the expected credit loss of our financial investment for 2020 decreased by RMB1,620.9 million from 2019, mainly due to the restructuring of our investment in 2019 to reduce the percentage of corporate bonds. In addition, provision recognized in the previous two years was sufficient to cover the credit risk of such assets. The expected credit loss of customer loans and advances for 2020 decreased by RMB491.5 million when compared with 2019, mainly due to the decrease in both NPL and NPL ratio and improvement in asset quality.

The following table sets forth the components of our expected credit losses and asset losses for the years indicated.

| | For the years ended December 31, | |
|---|---|---|
| | 2019 | 2020 |
| | *(in millions of RMB)* | |
| Financial investments | 1,709.6 | 88.7 |
| Loans and advances to customers | 790.3 | 298.8 |
| Credit commitments | 6.7 | 5.5 |
| Financial assets held under resale agreements and deposits and placements with banks and other financial institutions | 11.0 | 7.4 |
| Asset losses | — | 2,298.2 |
| Others(1) | 75.9 | 75.7 |
| **Total** | **2,593.5** | **2,774.3** |

*Note:*

(1) Mainly consisted of provisions for other assets.

**Income Tax Expenses**

The following table sets forth the reconciliation between the income tax expenses calculated at the statutory income tax rate applicable to our profit before tax and our actual income tax expenses for the periods indicated.

| | For the years ended December 31, | |
|---|---|---|
| | 2019 | 2020 |
| | *(in millions of RMB)* | |
| **Profit before tax** | **5,700.8** | **5,372.1** |
| Income tax calculated at the tax rate of 25% | 1,425.2 | 1,343.0 |
| Impact of income not subject to tax(1) | (752.2) | (1,106.8) |
| Profit or loss attributable to associates | (8.7) | (6.1) |
| Non-deductible tax effect(2) | 51.6 | 86.8 |
| Derecognition of previously recognized deferred tax assets and others | 114.8 | — |
| Effect of preferential tax rate applicable to a subsidiary(3) | (0.1) | (0.1) |
| **Income tax expense** | **830.6** | **316.8** |

*Notes:*

(1) Mainly consisted of interest income from debt securities issued by PRC governments, which is non-taxable in accordance with PRC tax regulations.

(2) Mainly consisted of expenditures in excess of limitation of tax deduction in accordance with PRC tax regulations.

(3) Referred to our controlled subsidiary, Hezhou Babu Dongying County Bank, which was subject to a reduced income tax rate at 15% as it qualified in industries encouraged to develop in the western region of the PRC.

Our income tax expenses decreased by 61.9% from RMB830.6 million for the year ended December 31, 2019 to RMB316.8 million for the year ended December 31, 2020, which is mainly attributable to an increase in our non-taxable income, as a result of our increased investment in debt securities issued by PRC Government and funds that is tax free according to relevant PRC laws and regulations. Our effective income tax rate was 14.6% and 5.9% for the years ended December 31, 2019 and 2020, respectively.

The following table sets forth, for the periods indicated, the components of our income tax expenses.

| | For the years ended December 31, | |
|---|---|---|
| | 2019 | 2020 |
| | (in millions of RMB) | |
| Current income tax | 1,188.6 | 971.4 |
| Deferred income tax | (358.0) | (654.6) |
| **Total income tax expenses** | **830.6** | **316.8** |

**Net Profit**

Primarily as a result of all the foregoing factors, our net profit increased by 3.8% from RMB4,870.2 million for the year ended December 31, 2019 to RMB5,055.3 million for the year ended December 31, 2020.

**Other Comprehensive Income/(Losses)**

| | For the years ended December 31, | |
|---|---|---|
| | 2019 | 2020 |
| | (in millions of RMB) | |
| **Items which may be reclassified to profit or loss** | | |
| Changes in fair value of financial assets at fair value through other comprehensive income | (865.1) | (1,510.2) |
| Credit impairment provision for financial assets at fair value through other comprehensive income | 1,731.0 | 98.4 |
| Impact on income tax on changes in fair value and credit impairment provision of financial assets at fair value through other comprehensive income | (216.4) | 352.9 |
| **Items will not be reclassified to profit or loss** | | |
| Changes in fair value of equity instruments designated at fair value through other comprehensive income | 10.6 | 2.5 |
| Impact on income tax on changes in fair value of equity instruments designated at fair value through other comprehensive income | (2.6) | (0.6) |
| **Other Comprehensive Income/(Losses)** | **657.5** | **(1,057.0)** |

Our financial assets measured at fair value through other comprehensive income primarily consist of re-discounted bills, debt securities, rights to earning on credit assets, wealth management products for direct financing and unlisted equity investments. We recorded loss from changes in fair value of financial assets at fair value through other comprehensive income at the amount of RMB865.1 million and RMB1,510.2 million in 2019 and 2020, respectively. Such increase was primarily due to the increase in prevailing interest rate of debt securities in 2020, which resulted in a decrease in fair value of our financial assets. We incurred impairment losses of RMB1,731.0 million and RMB98.4 million on such financial assets in 2019 and 2020, respectively, in accordance with the expected credit loss model under IFRS 9. Such significant higher impairment loss in 2019 was because of the increasing credit risk in relation to the debt securities market in 2019, and we increased our credit impairment provision accordingly to reflect the associated risks for 2019.

## RESULTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2019

### Net Interest Income

We generated the majority of our operating income from net interest income for the years ended December 31, 2018 and 2019, which represented 74.9% and 74.6% of our operating income of the same years, respectively.

The following table sets forth our interest income, interest expense and net interest income for the periods indicated.

| | For the years ended December 31, | |
|---|---|---|
| | 2018 | 2019 |
| | *(in millions of RMB)* | |
| Interest income | 16,114.7 | 17,353.1 |
| Interest expense | (8,794.3) | (8,551.9) |
| **Net interest income** | **7,320.4** | **8,801.2** |

Our net interest income increased by 20.2% from RMB7,320.4 million for the year ended December 31, 2018 to RMB8,801.2 million for the year ended December 31, 2019, primarily due to an 7.7% increase in our interest income and a 2.8% decrease in our interest expense.

The following table sets forth the average balances of our interest-earning assets and interest-bearing liabilities, the related interest income or expense and the related average yields on assets or related average costs of liabilities for the periods indicated.

| | For the years ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2018 | | | 2019 | | |
| | Average balance | Interest income/ expense | Average yield/ cost(1) | Average balance | Interest income/ expense | Average yield/ cost(1) |
| | *(in millions of RMB, except percentages)* | | | | | |
| **Interest-earning assets** | | | | | | |
| Loans and advances to customers | 154,681.0 | 8,598.4 | 5.56% | 185,401.4 | 10,149.5 | 5.47% |
| Financial investments | 151,465.7 | 6,523.4 | 4.31% | 159,621.6 | 6,256.6 | 3.92% |
| Deposits with central bank | 35,553.7 | 558.8 | 1.57% | 37,885.6 | 462.6 | 1.22% |
| Financial assets held under resale agreements and deposits and placements with banks and other financial institutions | 15,624.1 | 434.1 | 2.78% | 20,270.2 | 484.4 | 2.39% |
| **Total interest-earning assets** | **357,324.5** | **16,114.7** | **4.51%** | **403,178.8** | **17,353.1** | **4.30%** |
| **Interest-bearing liabilities** | | | | | | |
| Deposits from customers | 247,826.0 | 4,457.8 | 1.80% | 280,198.0 | 5,125.4 | 1.83% |
| Debt securities issued | 44,118.7 | 1,990.5 | 4.51% | 54,981.8 | 1,891.2 | 3.44% |
| Financial assets sold under repurchase agreements and deposits and placements from banks and other financial institutions | 55,033.3 | 2,314.4 | 4.21% | 50,783.0 | 1,470.2 | 2.90% |
| Borrowings from central banks | 324.9 | 10.0 | 3.06% | 1,471.7 | 40.5 | 2.75% |
| Leasing liability | 406.7 | 21.6 | 5.34% | 478.2 | 24.6 | 5.12% |
| **Total interest-bearing liabilities** | **347,709.6** | **8,794.3** | **2.53%** | **387,912.7** | **8,551.9** | **2.20%** |
| **Net interest income** | | **7,320.4** | | | **8,801.2** | |
| **Net interest spread(2)** | | | **1.98%** | | | **2.10%** |
| **Net interest margin(3)** | | | **2.05%** | | | **2.18%** |

*Notes:*

(1) Calculated by dividing interest income/expense by the average balance.

(2) Calculated as the difference between the average yield on total interest-earning assets and the average cost of total interest-bearing liabilities.

(3) Calculated by dividing net interest income by the average balance of total interest-earning assets.

The following table sets forth the allocation of changes in our interest income and interest expense due to changes in volume and changes in rate for the periods indicated. Changes in volume are measured by changes in the average balances and changes in rate are measured by changes in the average rates. Changes caused by both volume and rate have been allocated to changes in volume.

| | For the years ended December 31, 2019 vs. 2018 | | |
|---|---|---|---|
| | Increase/ (decrease) due to | | Net increase/ (decrease)[3] |
| | Volume[1] | Rate[2] | |
| | (in millions of RMB) | | |
| **Interest-earning assets** | | | |
| Deposits with central bank[4] | 36.7 | (132.9) | (96.2) |
| Financial assets held under resale agreements and deposits and placements with banks and other financial institutions | 129.0 | (78.7) | 50.3 |
| Loans and advances to customers | 1,707.7 | (156.6) | 1,551.1 |
| Financial investments[5] | 351.3 | (618.1) | (266.8) |
| **Changes in interest income** | 2,224.7 | (986.3) | 1,238.4 |
| **Interest-bearing liabilities** | | | |
| Borrowing from central bank | 35.1 | (4.6) | 30.5 |
| Financial assets sold under repurchase agreements and deposits and placements from banks and other financial institutions | (178.7) | (665.5) | (844.2) |
| Deposits from customers | 582.3 | 85.3 | 667.6 |
| Debt securities issued[6] | 490.1 | (589.4) | (99.3) |
| Lease liabilities | 3.8 | (0.8) | 3.0 |
| **Changes in interest expense** | 932.6 | (1,175.0) | (242.4) |
| **Changes in net interest income** | 1,292.1 | 188.7 | 1,480.8 |

*Notes:*

(1) Represents the average balance for the period minus the average balance for the previous period, multiplied by the average yield/cost of the previous year.

(2) Represents the average yield/cost for the period minus the average yield/cost for the previous year, multiplied by the average balance for the period.

(3) Represents interest income/expense for the period minus interest income/expense for the previous period.

(4) Consisted primarily of statutory deposit reserves and surplus deposit reserves.

(5) Consisted primarily of interest-earning financial investments at amortized costs and financial investments at fair value through other comprehensive income. Since interest income from financial assets at fair value through profit or loss is regarded as trading gains under IFRS 9, financial assets at fair value through profit or loss are excluded for the purpose of the above table.

(6) Consisted primarily of interbank certificates of deposits, tier-two capital debt securities and green financial debt securities.

***Interest Income***

The following table sets forth the breakdown of our interest income for the periods indicated.

| | For the years ended December 31, | | | |
|---|---|---|---|---|
| | 2018 | | 2019 | |
| | **Amount** | **% of total** | **Amount** | **% of total** |
| | *(in millions of RMB, except percentages)* | | | |
| **Interest income from** | | | | |
| Deposits with central bank | 558.8 | 3.4% | 462.6 | 2.6% |
| Financial assets held under resale agreements and deposits and placements with banks and other financial institutions | 434.1 | 2.7% | 484.4 | 2.8% |
| Loans and advances to customers | 8,598.4 | 53.4% | 10,149.5 | 58.5% |
| Financial investments | 6,523.4 | 40.5% | 6,256.6 | 36.1% |
| **Total interest income** | **16,114.7** | **100.0%** | **17,353.1** | **100.0%** |

Our interest income increased by 7.7% from RMB16,114.7 million for the year ended December 31, 2018 to RMB17,353.1 million for the year ended December 31, 2019, primarily due to a 12.8% increase in the average balance of our interest-earning assets from RMB357,324.5 million for the year ended December 31, 2018 to RMB403,178.8 million for the year ended December 31, 2019.

*Interest Income from Loans and Advances to Customers*

Interest income from loans and advances to customers accounted for 53.4% and 58.5% of our interest income for the years ended December 31, 2018 and 2019, respectively.

Our loans and advances to customers consisted of corporate loans and advances, personal loans and advances and discounted bills. The following table sets forth the daily average balance, interest income and average yield for each component of our loans and advances to customers for the years indicated.

| | For the years ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2018 | | | 2019 | | |
| | **Average balance** | **Interest income** | **Average yield** | **Average balance** | **Interest income** | **Average yield** |
| | *(in millions of RMB, except percentages)* | | | | | |
| Corporate loans and advances | 92,765.3 | 5,831.9 | 6.29% | 101,677.5 | 6,647.3 | 6.54% |
| Personal loans and advances | 45,952.6 | 2,157.6 | 4.70% | 65,008.0 | 2,917.4 | 4.49% |
| Discounted bills | 15,963.1 | 608.9 | 3.81% | 18,715.9 | 584.8 | 3.12% |
| **Total** | **154,681.0** | **8,598.4** | **5.56%** | **185,401.4** | **10,149.5** | **5.47%** |

Our interest income from loans and advances to customers increased by 18.0% from RMB8,598.4 million for the year ended December 31, 2018 to RMB10,149.5 million for the year ended December 31, 2019, primarily due to the increase in the aggregate loan amount we granted to our customers, evidenced by the increase in the average balance of our total loans and advances to customers from RMB154,681.0 million for the year ended December 31, 2018 to RMB185,401.4 million for the year ended December 31, 2019. The average yield on our loans and advances to customers remained relatively stable at 5.56% and 5.47%, respectively, for the years ended December 31, 2018 and 2019.

*Corporate Loans and Advances.* Interest income from corporate loans and advances was the largest component of our interest income from loans and advances to customers, representing 67.8% and 65.5% of our total interest income from loans and advances to customers for the years ended December 31, 2018 and 2019, respectively.

Our interest income from corporate loans and advances increased by 14.0% from RMB5,831.9 million for the year ended December 31, 2018 to RMB6,647.3 million for the year ended December 31, 2019. The average balance of our corporate loans and advances increased by 9.6% from RMB92,765.3 million for the year ended December 31, 2018 to RMB101,677.5 million for the year ended December 31, 2019. The average yield on our corporate loans and advances increased from 6.29% for the year ended December 31, 2018 to 6.54% for the year ended December 31, 2019, primarily due to the increase in the amount and proportion of loans with higher interest rates.

*Personal Loans and Advances.* Interest income from personal loans and advances accounted for 25.1% and 28.7% of our total interest income from loans and advances to customers for the years ended December 31, 2018 and 2019, respectively.

Interest income from personal loans and advances increased by 35.2% from RMB2,157.6 million for the year ended December 31, 2018 to RMB2,917.4 million for the year ended December 31, 2019, mainly due to the increase in average balance. The average balance of our personal loans and advances increased by 41.5% from RMB45,952.6 million for the year ended December 31, 2018 to RMB65,008.0 million for the year ended December 31, 2019, primarily due to our effort to expand our personal loan business. The average yield on our personal loans and advances decreased from 4.70% for the year ended December 31, 2018 to 4.49% for the year ended December 31, 2019, primarily due to the lower interest rate of online loan products newly launched in 2019 as compared with 2018, and the downward adjustment of interest rate of online loan products in 2019.

*Discounted bill.* Interest income from discounted bill accounted for 7.1% and 5.8% of our total interest income from loans and advances to customers for the years ended December 31, 2018 and 2019, respectively.

Interest income from discounted bill decreased by 4.0% from RMB608.9 million for the year ended December 31, 2018 to RMB584.8 million for the year ended December 31, 2019, primarily due to the decrease in average yields from 3.81% for the year ended December 31, 2018 to 3.12% for the year ended December 31, 2019, which was in turn primarily due to the decrease in prevailing market interest rates.

*Interest Income from Financial Investments*

Interest income from financial investments represented 40.5% and 36.1% of our total interest income for the years ended December 31, 2018 and 2019, respectively.

Since the adoption of IFRS 9 during the Track Record Period, our interest income from financial investments consisted of interest income from our financial investments at amortized costs, financial investments at fair value through other comprehensive income.

Our interest income from financial investments decreased by 4.1% from RMB6,523.4 million for the year ended December 31, 2018 to RMB6,256.6 million for the year ended December 31, 2019, primarily due to the decrease in average yields from 4.31% for the year ended December 31, 2018 to 3.92% for the year ended December 31, 2019, which was in turn primarily due to the decreases in interest rates and yields of newly invested debt securities, which was in turn due to the lower prevailing market interest rates. The decrease in interest income from financial investment was partially offset by the increase in average balance of our financial investments increased by 5.4% from RMB151,465.7 million for the year ended December 31, 2018 to RMB159,621.6 million as at December 31, 2019, primarily due to increase in our investment in financial instrument, which was in turn driven by the growth of deposits in 2019 and the consequent increase in available funds for financial investment.

The following table sets forth a breakdown of the average balances and interest income of debt securities investment, rights to earnings on credit assets, wealth management direct financing instruments as well as their respective average yields for the years indicated:

| | For the years ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2018 | | | 2019 | | |
| | Average balance | Interest income | Average yield | Average balance | Interest income | Average yield |
| | *(in millions of RMB, except percentages)* | | | | | |
| **Interest income from financial investments** | | | | | | |
| Debt securities investment | 138,748.3 | 5,824.2 | 4.20% | 136,104.1 | 5,057.2 | 3.72% |
| Rights to earnings on credit assets | 8,848.9 | 500.8 | 5.66% | 15,495.2 | 716.4 | 4.62% |
| Wealth management instruments for direct financing | 3,868.5 | 198.4 | 5.13% | 8,022.3 | 483.0 | 6.02% |
| **Total** | **151,465.7** | **6,523.4** | **4.31%** | **159,621.6** | **6,256.6** | **3.92%** |

The substantial majority of our interest income from financial investments for the years ended December 31, 2018 and 2019 was generated from investment in debt securities, which represented 89.3% and 80.8% of our total interest income from financial investment, respectively. The average yields of our investment in debt securities decreased from 4.20% in 2018 to 3.72% in 2019, mainly due to the decrease in interest rates and yields of newly invested debt securities, which was in turn due to the lower prevailing market interest rates.

The interest income of rights to earnings on credit assets in 2018 and 2019 represented 7.7% and 11.5%, respectively, of our interest income from financial investments. The average yields of our rights to earnings on credit assets decreased from 5.66% for the year ended December 31, 2018 to 4.62% for the year ended December 31, 2019, mainly due to the general decrease in the prevailing market interest rates in 2019. In addition, we implemented strict risk management policies in 2019 that heightened our review and approval standards for financial investments, including heightened standards for asset quality of issuers of financial instrument we invest in.

The interest income of wealth management instruments for direct financing in 2018 and 2019 represented 3.0% and 7.7% of our interest income from financial investment, respectively. The average yields of our wealth management direct financing instruments increased from 5.13% in 2018 to 6.02% in 2019, mainly due to increases in interest rates of the wealth management instruments for direct financing we invested in.

For a breakdown of the balances of our financial investments by business model and cashflow characteristics as of December 31, 2018 and 2019 and their corresponding components, please see "Assets and Liabilities — Assets — Financial Assets — Distribution by Business Model and Cashflow Characteristics.

*Interest Income from Deposits with Central Bank*

Interest income from deposits with central bank represented 3.4% and 2.6% of our interest income for the years ended December 31, 2018 and 2019, respectively.

Our interest-earning assets balances of our deposits with central bank consist primarily of statutory deposit reserves and surplus deposit reserves with PBoC. Statutory deposit reserves represent the minimum level of cash deposits that we are required to maintain at PBoC, calculated as a percentage of the balance of our general deposits from customers. Surplus deposit reserves are deposits with PBoC in excess of statutory deposit reserves, which we maintain with PBoC for clearing purposes.

Our interest income from deposits with central bank decreased by 17.2% from RMB558.8 million for the year ended December 31, 2018 to RMB462.6 million for the year ended December 31, 2019, primarily due to a decrease in the average yields of our deposits with central bank. The average balance of our deposits with central bank increased by 6.6% from RMB35,553.7 million for the year ended December 31, 2018 to RMB37,885.6 million for the year ended December 31, 2019, primarily due to the consolidation of Zhanjiang RCB. The average yields of our deposits with central bank decreased from 1.57% for the year ended December 31, 2018 to 1.22% for the year ended December 31, 2019, primarily due to the increase in the proportion of surplus deposits reserve which had lower yield.

*Interest Income from Financial Assets Held under Resale Agreements and Deposits and Placements with Banks and Other Financial Institutions*

Interest income from financial assets held under resale agreements and deposits and placements with banks and other financial institutions represented 2.7% and 2.8% of our interest income for the years ended December 31, 2018 and 2019, respectively.

Our interest income from financial assets held under resale agreements and deposits and placements with banks and other financial institutions increased by 11.6% from RMB434.1 million for the year ended December 31, 2018 to RMB484.4 million for the year ended December 31, 2019, primarily due to the increase in the average balance by 29.7% from RMB15,624.1 million for the year ended December 31, 2018 to RMB20,270.2 million for the year ended December 31, 2019, which was in turn due to the growth of deposit in 2019 and the consequent increase in available funds for financial investment. The average yield on these financial assets held under resale agreements and deposits and placements with banks and other financial institutions decreased from 2.78% for the year ended December 31, 2018 to 2.39% for the year ended December 31, 2019, primarily due to the lower prevailing interest rates in the money market.

***Interest Expense***

The following table sets forth the breakdown of our interest expense for the periods indicated.

| | For the years ended December 31, | | | |
|---|---|---|---|---|
| | 2018 | | 2019 | |
| | Amount | % of total | Amount | % of total |
| | (in millions of RMB, except percentages) | | | |
| **Interest expense on** | | | | |
| Borrowings from central banks | 10.0 | 0.1% | 40.5 | 0.5% |
| Financial assets sold under repurchase agreements and deposits and placements from banks and other financial institutions | 2,314.4 | 26.3% | 1,470.2 | 17.2% |
| Deposits from customers | 4,457.8 | 50.7% | 5,125.4 | 59.9% |
| Debt Securities Issued | 1,990.5 | 22.7% | 1,891.2 | 22.1% |
| Lease liabilities | 21.6 | 0.2% | 24.6 | 0.3% |
| **Total interest expense** | **8,794.3** | **100.0%** | **8,551.9** | **100.0%** |

Our interest expense decreased by 2.8% from RMB8,794.3 million for the year ended December 31, 2018 to RMB8,551.9 million for the year ended December 31, 2019, primarily due to a 36.5% decrease in interest expense related to financial assets sold under repurchase agreements and deposits and placements from banks and other financial institutions which was in turn attributable to decreases in investment amount and interest rates. The decrease was partially offset by an 15.0% increase in interest expense from deposit from customers.

*Interest Expense on Deposits from Customers*

Deposits from customers are our primary source of funding. Interest expense on deposits from customers represented 50.7% and 59.9% of our total interest expense for the years ended December 31, 2018 and 2019, respectively.

The following table sets forth the daily average balance, interest expense and average cost of our customer deposits by product type for the periods indicated.

| | For the years ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2018 | | | 2019 | | |
| | Average balance | Interest expense | Average cost | Average balance | Interest expense | Average cost |
| | *(in millions of RMB, except percentages)* | | | | | |
| **Corporate deposits** | | | | | | |
| Demand | 57,378.1 | 422.9 | 0.74% | 66,886.0 | 482.7 | 0.72% |
| Time | 43,841.4 | 1,653.3 | 3.77% | 47,859.3 | 1,869.9 | 3.91% |
| Subtotal | 101,219.5 | 2,076.2 | 2.05% | 114,745.3 | 2,352.6 | 2.05% |
| **Personal deposits** | | | | | | |
| Demand | 78,466.1 | 446.6 | 0.57% | 87,168.9 | 481.5 | 0.55% |
| Time | 68,140.4 | 1,935.0 | 2.84% | 78,283.8 | 2,291.3 | 2.93% |
| Subtotal | 146,606.5 | 2,381.6 | 1.62% | 165,452.7 | 2,772.8 | 1.68% |
| **Total deposits from customers** | **247,826.0** | **4,457.8** | **1.80%** | **280,198.0** | **5,125.4** | **1.83%** |

Our interest expense on deposits from customers increased by 15.0% from RMB4,457.8 million for the year ended December 31, 2018 to RMB5,125.4 million for the year ended December 31, 2019, primarily due to an increase in the average balance of our deposits from customers. The average balance of our customer deposits increased by 13.1% from RMB247,826.0 million for the year ended December 31, 2018 to RMB280,198.0 million for the year ended December 31, 2019, primarily due to increased amount of deposits from our customers. The average cost of our customer deposits increased from 1.80% of our interest expense for the year ended December 31, 2018 to 1.83% of our interest expense for the year ended December 31, 2019, primarily due to the increase of deposit cost resulting from competition in the industry.

*Interest Expense on Financial Assets Sold under Repurchase Agreements and Deposits and Placements from Banks and Other Financial Institutions*

Interest expense on financial assets sold under repurchase agreements and deposits and placements from banks and other financial institutions represented 26.3% and 17.2% of our interest expense for the years ended December 31, 2018 and 2019, respectively.

Our interest expense on financial assets sold under repurchase agreements and deposits and placements from banks and other financial institutions decreased from RMB2,314.4 million for the year ended December 31, 2018 to RMB1,470.2 million for the year ended December 31, 2019, primarily due to decreases in prevailing market interest rates and a 7.7% decrease in the average balance of financial assets sold under repurchase agreements and deposits and placements from banks and other financial institutions from RMB55,033.3 million for the year ended December 31, 2018 to RMB50,783.0 million for the year ended December 31, 2019, which was in turn primarily due to our efforts to partially replace deposits and placement from banks and other financial institutions with the standardized interbank certificates of deposits.

*Interest Expense on Debt Securities Issued*

Interest expense on debt securities issued represented 22.7% and 22.1% of our interest expense for the years ended December 31, 2018 and 2019, respectively.

Our interest expense on debt securities issued decreased by 5.0% from RMB1,990.5 million for the year ended December 31, 2018 to RMB1,891.2 million for the year ended December 31, 2019, primarily due to lower interest rate of interbank certificates of deposits we issued in 2019 when compared with 2018 resulting from the lower prevailing market rates due to higher money market liquidity in 2019.

*Interest Expenses on Borrowings from Central Bank*

Interest expense on borrowings from central bank represented 0.1% and 0.5% of our interest expense for the years ended December 31, 2018 and 2019, respectively.

Our interest expense on borrowing from the central bank increased by 305.0% from RMB10.0 million for the year ended December 31, 2018 to RMB40.5 million for the year ended December 31, 2019, primarily due to an increase in average balance of borrowing, which was partially offset by a decrease in average cost of borrowing. Average balance of borrowing from the central bank increased from RMB324.9 million for the year ended December 31, 2018 to RMB1,471.1 million for the year ended December 31, 2019, primarily due to an increase in our borrowing from the central bank for the purpose of supporting SMEs. Average cost of borrowing from the central bank decreased from 3.06% for the year ended December 31, 2018 to 2.75% for the year ended December 31, 2019, primarily due to full repayment of the loans from the central bank with high interest rate in 2018 when due, and the lower interest rate on new loans from the central bank in 2019.

***Net Interest Spread and Net Interest Margin***

Net interest spread is the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities. Net interest margin is the ratio of net interest income to the daily average balance of total interest-earning assets.

Our net interest spread increased from 1.98% for the year ended December 31, 2018 to 2.10% for the year ended December 31, 2019. Our net interest margin increased from 2.05% for the year ended December 31, 2018 to 2.18% for the year ended December 31, 2019. The increases in both net interest spread and net interest margin were due to decreased costs of interbank liabilities.

**Net Fee and Commission Income**

Net fee and commission income represented 9.7% and 8.9% of our total operating income for the years ended December 31, 2018 and 2019, respectively. The following table sets forth the principal components of our net fee and commission income for the periods indicated.

| | For the years ended December 31, | |
|---|---|---|
| | **2018** | **2019** |
| | *(in millions of RMB)* | |
| **Fee and commission income** | | |
| Bank card services | 477.9 | 447.8 |
| Custodian and other fiduciary services | 189.2 | 184.2 |
| Wealth management agency services | 311.6 | 459.3 |
| Settlement and clearing services | 39.5 | 44.6 |
| Others | 34.5 | 48.2 |
| Subtotal | 1,052.7 | 1,184.1 |
| **Fee and commission expenses** | **(101.1)** | **(129.3)** |
| **Net fee and commission income** | **951.6** | **1,054.8** |

Our net fee and commission income increased by 10.8% from RMB951.6 million for the year ended December 31, 2018 to RMB1,054.8 million for the year ended December 31, 2019.

***Fee and Commission Income***

Our fee and commission income increased by 12.5% from RMB1,052.7 million for the year ended December 31, 2018 to RMB1,184.1 million for the year ended December 31, 2019. The increase was mainly due to a 47.4% increase of income from wealth management agency fee from RMB311.6 million for the year ended December 31, 2018 to RMB459.3 million for the year ended December 31, 2019.

*Bank Card Service Fees*

Bank card service fees consisted primarily of transaction fees on the payment made with our bank cards. Bank card service fees was RMB477.9 million and RMB447.8 million for the years ended December 31, 2018 and 2019, which remained relatively stable.

*Custodian and Other Fiduciary Service Fees*

Custodian and other fiduciary service fees consisted primarily of fees earned on agency services for sales of insurances and other products issued by third parties. Custodian and other fiduciary service fees decreased by 2.6% from RMB189.2 million for the year ended December 31, 2018 to RMB184.2 million for the year ended December 31, 2019, primarily due to decrease in the amount of debt securities issued by third parties.

*Wealth Management Agency Service Fee*

Wealth management agency service fees consist primarily of fees and commissions received for wealth management agency services provided to our customers. Our wealth management agency service fees increased by 47.4% from RMB311.6 million for the year ended December 31, 2018 to RMB459.3 million for the year ended December 31, 2019, primarily due to improved interest rate spreads.

*Settlement and Clearing Services Fee*

Settlement and clearing services fees consisted primarily of fees earned on settlement and clearing services in respect of bank acceptance bills, promissory notes and cheques, as well as fees earned on money transfers and clearing services. Settlement can be effectuated through our branch offices, automatic terminals or via internet and mobile banking. Our settlement fees and clearing service fee increased from RMB39.5 million for the year ended December 31, 2018 to RMB44.6 million for the year ended December 31, 2019, primarily due to an increase in service fee from our online third-party payment transactions, which was conducted by our Bank in cooperation with qualified third-party payment institutions. As of December 31, 2019 and 2020 and March 31, 2021, the number of our online third-party payment transactions was about 310.7 million, 339.2 million and 83.1 million respectively.

***Fee and Commission Expense***

Fee and commission expenses consist primarily of fees paid to third parties in connection with our fee and commission-based services that can be directly allocated to the provision of such services. We launched our internet loan business in 2018. As of December 31, 2018, 2019 and 2020 and March 31, 2021, our loans and advances to customers under our internet loan business were RMB1,775.6 million, RMB16,507.6 million, RMB20,270.6 million and RMB23,480.6 million, respectively. Our fee and commission expenses increased by 27.9% from RMB101.1 million for the year ended December 31, 2018 to RMB129.3 million for the year ended December 31, 2019, primarily due to the increase in our payment of platform fee which was in turn due to the growth in our internet loan business. Such platform fee consists primarily of the fee paid by our Bank in connection with third-party services needed in the development of our internet loan business, the increase was in line with the growth of our internet loan business. Please also refer to "Business — Distribution Network — Overview — Electronic Banking Channels — Online Banking" in this prospectus.

**Other Components of Our Operating Income**

The following table sets forth other components of our operating income for the periods indicated.

| | For the years ended December 31, | | | |
|---|---|---|---|---|
| | **2018** | **% of total** | **2019** | **% of total** |
| | *(in millions of RMB)* | | | |
| Net trading gains | 1,223.0 | 81.2% | 1,133.3 | 58.4% |
| Net gains on financial investments | 82.0 | 5.4% | 462.9 | 23.9% |
| Other operating income(1) | 200.6 | 13.4% | 343.0 | 17.7% |
| **Total** | **1,505.6** | **100.0%** | **1,939.2** | **100.0%** |

*Note:*
(1) Consisted primarily of rental income and government grants.

***Net Trading Gains***

Since January 1, 2018, our net trading gains consisted primarily of interest income and disposal gains of financial assets at fair value through profit or loss, exchange gains, and gains and losses from precious metals business. Our net trading gains decreased by 7.3% from RMB1,223.0 million for the year ended December 31, 2018 to RMB1,133.3 million for the year ended December 31, 2019, primarily due to the decrease in changes in the fair value of debt securities and fund investments we invested. The following table sets forth other components of our net trading gains for the years indicated.

| | For the years ended December 31, | |
|---|---|---|
| | 2018 | 2019 |
| | (in millions of RMB) | |
| Net (losses)/gains on financial assets held for trading | 1,158.5 | 1,045.7 |
| Exchange gains | 64.1 | 86.7 |
| Gains on precious metal | 0.4 | 0.9 |
| **Total** | **1,223.0** | **1,133.3** |

***Net Gains on Financial Investments***

Net gains on financial investments consist primarily of interest income, dividend income from financial asset investments and gains from sale of debt instruments. Our net gains on financial investments increased significantly from RMB82.0 million for the year ended December 31, 2018 to RMB462.9 million for the year ended December 31, 2019, primarily attributable to the increase in spread income from selling debt securities by us as a result of yields of debt securities market decreasing in 2019. The following table sets forth the components of net gains on financial investment.

| | For the years ended December 31, | |
|---|---|---|
| | 2018 | 2019 |
| | (in millions of RMB) | |
| Net (losses)/gains on debt instrument investments at fair value through other comprehensive income | (136.3) | 278.1 |
| Net gains on other financial assets at fair value through profit or loss | 185.1 | 141.3 |
| Dividend income from equity instruments | 33.2 | 43.5 |
| **Total** | **82.0** | **462.9** |

***Other Operating Incomes***

Other operating incomes mainly include gains from sale of fixed assets and rental income. In 2018 and 2019, other operating incomes were RMB200.6 million and RMB343.0 million, respectively. The following table sets forth the principal components of our other operating incomes for the years indicated.

| | For the years ended December 31, | |
|---|---|---|
| | 2018 | 2019 |
| | (in millions of RMB) | |
| Gains from sale of fixed assets[(1)] | 148.1 | 296.4 |
| Rental income | 31.6 | 33.9 |
| Government grants | 16.5 | 9.1 |
| Others | 4.4 | 3.6 |
| **Total** | **200.6** | **343.0** |

*Note:*

(1) Consisted primarily of our disposal of certain properties with relatively long useful lives, low net values and low values in use.

**Operating Expenses**

The following table sets forth the principal components of our total operating expenses for the periods indicated.

| | For the years ended December 31, | | | |
|---|---|---|---|---|
| | **2018** | **% of total** | **2019** | **% of total** |
| | | *(in millions of RMB)* | | |
| Staff expense | 2,043.5 | 67.0% | 2,402.2 | 67.9% |
| Tax and surcharges | 118.0 | 3.9% | 134.3 | 3.8% |
| Office and administrative expenses | 518.2 | 17.0% | 615.5 | 17.4% |
| Depreciation and amortization | 355.2 | 11.6% | 320.2 | 9.1% |
| Auditors' remuneration | 2.7 | 0.1% | 3.6 | 0.1% |
| Other | 11.7 | 0.4% | 60.0 | 1.7% |
| **Total operating expenses** | **3,049.3** | **100.0%** | **3,535.8** | **100.0%** |

Our operating expenses increased by 16.0% from RMB3,049.3 million for the year ended December 31, 2018 to RMB3,535.8 million for the year ended December 31, 2019, primarily attributable to an increase in staff expenses. Our cost-to-income ratio (excluding tax expenses and surcharges) was 29.98% and 28.84% for the years ended December 31, 2018 and 2019, respectively. The decrease in our cost-to-income ratio was primarily due to our active cost control measures.

***Staff Expenses***

Staff expenses were the largest component of our operating expenses, representing 67.0% and 67.9% of our total operating expenses for the years ended December 31, 2018 and 2019, respectively.

The following table sets forth the components of our staff costs for the periods indicated.

| | For the years ended December 31, | | | |
|---|---|---|---|---|
| | **2018** | **% of total** | **2019** | **% of total** |
| | | *(in millions of RMB)* | | |
| Salaries, bonuses, allowances and subsidies | 1,520.5 | 74.4% | 1,753.0 | 73.0% |
| Social security and benefits | 342.2 | 16.7% | 434.2 | 18.0% |
| Enterprise annuity scheme | 115.4 | 5.6% | 139.0 | 5.8% |
| Labor union fees and employee education expenses | 65.4 | 3.3% | 76.0 | 3.2% |
| **Total staff costs** | **2,043.5** | **100.0%** | **2,402.2** | **100.0%** |

Staff expenses increased by 17.6% from RMB2,043.5 million for the year ended December 31, 2018 to RMB2,402.2 million for the year ended December 31, 2019, primarily due to growth of the size of our work force and salary level.

Salaries, bonuses, allowances and subsidies are the largest component of our staff expenses, representing 74.4% and 73.0% of our total staff costs for the years ended December 31, 2018 and 2019, respectively. Salaries, bonuses, allowances and subsidies increased by 15.3% from RMB1,520.5 million for the year ended December 31, 2018 to RMB1,753.0 million for the year ended December 31, 2019, primarily due to growth of the size of our work force and salary level.

***Depreciation and Amortization***

Depreciation and amortization was mainly associated with depreciation of our property and equipment, and amortization of software, right-to-use assets, investment properties and long-term deferred expenses. Depreciation and amortization represented 11.6% and 9.1% of our total operating expenses for the years ended December 31, 2018 and 2019, respectively. Depreciation and amortization decreased by 9.9% from RMB355.2 million for the year ended December 31, 2018 to RMB320.2 million for the year ended December 31, 2019, primarily due to disposal of certain fully depreciated assets.

***Tax and Surcharges***

Tax and surcharges increased by 13.8% from RMB118.0 million for the year ended December 31, 2018 to RMB134.3 million for the year ended December 31, 2019, primarily due to an increase in our operating income subject to value-added taxes and the development and expansion of our business.

***Office and Administrative Expenses***

Office and administrative expenses represented 17.0% and 17.4% of our total operating expenses for the years ended December 31, 2018 and 2019, respectively. Office and administrative expenses consisted primarily of business marketing expenses, electronic equipment operating costs, security expenses and insurance premiums. Office and administrative expenses increased by 18.8% from RMB518.2 million for the year ended December 31, 2018 to RMB615.5 million for the year ended December 31, 2019, primarily due to an increase of advertising and business promotion costs and an increase of electronic equipment management costs as a result of our software procurement and equipment maintenance.

**Expected Credit Losses and Asset Losses**

Expected credit loss is weighted average credit losses with the probability of default as the weight, primarily including expected credit loss in our loans and advances to customers, financial investments, guarantees, financial assets held under resale agreements and deposits and placement with banks and other financial institutions. Our expected credit loss increased by 51.0% from RMB1,717.1 million for the year ended December 31, 2018 to RMB2,593.5 million for the year ended December 31, 2019, primarily due to the increase in allowance for expected credit loss to enhance our risk resistibility in view of increase in loans and advances to customers and increase in credit risk in debt securities market.

The following table sets forth the components of our expected credit losses and asset losses for the periods indicated.

| | For the years ended December 31, | |
|---|---|---|
| | 2018 | 2019 |
| | *(in millions of RMB)* | |
| Financial investments | 623.0 | 1,709.6 |
| Loans and advances to customers | 1,068.4 | 790.3 |
| Credit commitments | (1.0) | 6.7 |
| Financial assets held under resale agreements and deposits and placements with banks and other financial institutions | (6.1) | 11.0 |
| Others[1] | 32.8 | 75.9 |
| **Total** | **1,717.1** | **2,593.5** |

*Note:*

(1) Primarily consisted of provisions for other assets.

**Income Tax Expenses**

The following table sets forth the reconciliation between the income tax expenses calculated at the statutory income tax rate applicable to our profit before tax and our actual income tax expenses for the periods indicated.

| | For the years ended December 31, | |
|---|---|---|
| | 2018 | 2019 |
| | *(in millions of RMB)* | |
| **Profit before tax** | **5,034.2** | **5,700.8** |
| Income tax calculated at the tax rate of 25% | 1,258.6 | 1,425.2 |
| Impact of income not subject to tax[1] | (700.7) | (752.2) |
| Profit or loss attributable to associates | (5.8) | (8.7) |
| Non-deductible tax effect[2] | 30.9 | 51.6 |
| Derecognition of previously recognized deferred tax assets and others | — | 114.8 |
| Effect of preferential tax rate applicable to a subsidiary[3] | (2.1) | (0.1) |
| **Income tax expense** | **580.9** | **830.6** |

*Notes:*

(1) Mainly consisted of interest income from debt securities issued by PRC governments, which is non-taxable in accordance with PRC tax regulations.

(2) Mainly consisted of expenditures in excess of limitation of tax deduction in accordance with PRC tax regulations.

(3) Referred to our controlled subsidiary, Hezhou Babu Dongying County bank, which was subject to a reduced income tax rate at 15% as it qualified in industries encouraged to develop in the western region of the PRC.

Our income tax expenses increased by 43.0% from RMB580.9 million for the year ended December 31, 2018 to RMB830.6 million for the year ended December 31, 2019, primarily due to substantial growth of our business income and profit in 2019. Our effective income tax rate was 11.5% and 14.6% for the years ended December 31, 2018 and 2019, respectively.

The following table sets forth, for the periods indicated, the components of our income tax expenses.

| | For the years ended December 31, | |
|---|---|---|
| | 2018 | 2019 |
| | (in millions of RMB) | |
| Current income tax | 685.7 | 1,188.6 |
| Deferred income tax | (104.8) | (358.0) |
| **Total income tax expenses** | **580.9** | **830.6** |

**Net Profit**

Primarily as a result of all the foregoing factors, our net profit increased by 9.4% from RMB4,453.3 million for the year ended December 31, 2018 to RMB4,870.2 million for the year ended December 31, 2019.

**Other Comprehensive Income/(Losses)**

| | For the years ended December 31, | |
|---|---|---|
| | 2018 | 2019 |
| | (in millions of RMB) | |
| **Items which may be reclassified to profit or loss** | | |
| Changes in fair value of financial assets at fair value through other comprehensive income | 1,654.9 | (865.1) |
| Credit impairment provision for financial assets at fair value through other comprehensive income | 612.1 | 1,731.0 |
| Impact on income tax on changes in fair value and credit impairment provision of financial assets at fair value through other comprehensive income | (566.8) | (216.4) |
| **Items will not be reclassified to profit or loss** | | |
| Changes in fair value of equity instruments designated at fair value through other comprehensive income | (3.8) | 10.6 |
| Impact on income tax on changes in fair value of equity instruments designated at fair value through other comprehensive income | 1.0 | (2.6) |
| **Other Comprehensive Income/(Losses)** | **1,697.4** | **657.5** |

Our financial assets measured at fair value through other comprehensive income primarily consist of re-discounted bills, debt securities, rights to earnings on credit assets, wealth management products for direct financing and unlisted equity investments. We recorded a gain from changes in fair value of financial assets at fair value through other comprehensive income at the amount of RMB1,654.9 million in 2018 and a loss from changes in fair value of financial assets at fair value through other comprehensive income at the amount of RMB856.1 million in 2019. Such change was primarily resulted from the increased credit risk in relation to some of our debt securities in 2019, which led to the decrease in fair value of such debt securities. We incurred impairment losses of RMB612.1 million and RMB1,731.0 million on such financial assets in 2018 and 2019, respectively, in accordance with the expected credit loss model under IFRS 9. The significant increase in such impairment loss in 2019 was mainly due to the increased credit risk in debt securities market in 2019, and we increased our credit impairment provisions accordingly to enhance our capability to reflect the associated risks for 2019.

## SUMMARY OF SEGMENT OPERATING RESULTS

We have three principal business activities: corporate banking business, retail banking business and treasury business. Please see "Business — Our Principal Businesses". The following table sets forth, for the periods indicated, our operating results for each of our principal business segments.

| | For the years ended December 31, | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2018 | | | | | 2019 | | | | | 2020 | | | | |
| | Corporate banking business | Retail banking business | Treasury business | Others(1) | Total | Corporate banking business | Retail banking business | Treasury business | Others(1) | Total | Corporate banking business | Retail banking business | Treasury business | Others(1) | Total |
| | (in millions of RMB) | | | | | | | | | | | | | | |
| External interest income(2) | 6,043.4 | 2,069.2 | 8,002.1 | — | 16,114.7 | 6,832.5 | 2,917.4 | 7,603.2 | — | 17,353.1 | 8,269.2 | 4,523.1 | 6,725.3 | — | 19,517.6 |
| External interest expense(2) | (2,002.2) | (2,619.6) | (4,172.5) | — | (8,794.3) | (2,426.0) | (2,753.1) | (3,372.8) | — | (8,551.9) | (3,028.9) | (3,406.2) | (3,150.1) | — | (9,585.2) |
| Net inter-segment interest income/(expense)(3) | (147.9) | 3,765.9 | (3,618.0) | — | — | 123.8 | 3,442.8 | (3,566.6) | — | — | 40.7 | 3,358.7 | (3,399.4) | — | (0.0) |
| **Net interest income** | **3,893.3** | **3,215.5** | **211.6** | **—** | **7,320.4** | **4,530.3** | **3,607.1** | **663.8** | **—** | **8,801.2** | **5,281.0** | **4,475.6** | **175.8** | **—** | **9,932.4** |
| **Net fee and commission income** | **101.4** | **794.6** | **37.4** | **18.2** | **951.6** | **65.3** | **910.5** | **69.9** | **9.1** | **1,054.8** | **138.4** | **764.9** | **22.0** | **15.1** | **940.4** |
| Net trading gains/(losses) | 51.5 | 2.7 | 1,168.8 | — | 1,223.0 | 76.2 | 6.3 | 1,050.8 | — | 1,133.3 | 81.6 | 45.6 | 754.1 | — | 881.3 |
| Net gains/(losses) arising from Financial investments | — | — | 48.8 | 33.2 | 82.0 | — | — | 419.4 | 43.5 | 462.9 | — | — | 433.9 | (252.0) | 181.9 |
| Other operating income | — | — | 1.1 | 199.5 | 200.6 | — | — | 0.8 | 342.2 | 343.0 | — | — | — | 111.0 | 111.0 |
| **Operating income** | **4,046.2** | **4,012.8** | **1,467.7** | **250.9** | **9,777.6** | **4,671.8** | **4,523.9** | **2,204.7** | **394.8** | **11,795.2** | **5,501.0** | **5,286.1** | **1,385.8** | **(125.9)** | **12,047.0** |
| Operating expenses | (792.9) | (1,635.0) | (384.3) | (237.1) | (3,049.3) | (956.2) | (1,935.8) | (518.5) | (125.3) | (3,535.8) | (1,263.5) | (2,215.8) | (392.9) | (52.7) | (3,924.9) |
| Depreciation and amortization | (86.6) | (196.8) | (67.9) | (3.9) | (355.2) | (81.3) | (177.3) | (58.4) | (3.2) | (320.2) | (135.5) | (172.7) | (40.3) | (2.6) | (351.1) |
| Expected credit loss and asset losses | (1,073.3) | (26.9) | (616.9) | — | (1,717.1) | (455.4) | (334.9) | (1,803.2) | — | (2,593.5) | (195.7) | (128.6) | (151.8) | (2,298.2) | (2,774.3) |
| Share of profit of associates | — | — | — | 23.0 | 23.0 | — | — | — | 34.9 | 34.9 | (0.0) | (0.0) | 0.1 | 24.2 | 24.3 |
| **Profit before tax** | **2,180.0** | **2,350.9** | **466.5** | **36.8** | **5,034.2** | **3,260.2** | **2,253.2** | **(117.0)** | **304.4** | **5,700.8** | **4,041.8** | **2,941.7** | **841.2** | **(2,452.6)** | **5,372.1** |

| | For the three months ended March 31, | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2020 | | | | | 2021 | | | | |
| | Corporate banking business | Retail banking business | Treasury business | Others(1) | Total | Corporate banking business | Retail banking business | Treasury business | Others(1) | Total |
| | (in millions of RMB) | | | | | | | | | |
| External interest income(2) | 2,008.5 | 1,082.5 | 1,666.6 | — | 4,757.6 | 2,445.0 | 1,223.4 | 1,635.9 | — | 5,304.3 |
| External interest expense(2) | (693.4) | (747.4) | (789.6) | — | (2,230.4) | (885.1) | (911.8) | (927.1) | — | (2,724.0) |
| Net inter-segment interest income/(expense)(3) | 17.0 | 787.5 | (804.5) | — | — | (66.0) | 811.0 | (745.0) | — | — |
| **Net interest income** | **1,332.1** | **1,122.6** | **72.5** | **—** | **2,527.2** | **1,493.9** | **1,122.6** | **(36.2)** | **—** | **2,580.3** |
| **Net fee and commission income** | **28.9** | **151.1** | **11.1** | **1.2** | **192.3** | **31.9** | **147.6** | **3.7** | **10.2** | **193.4** |
| Net trading gains/(losses) | 19.0 | 7.7 | 334.6 | — | 361.3 | 34.2 | 16.9 | 257.1 | — | 308.2 |
| Net gains/(losses) arising from Financial investments | — | — | 57.6 | — | 57.6 | — | — | 66.8 | (9.3) | 57.5 |
| Other operating income | — | — | — | 34.7 | 34.7 | — | 0.1 | — | 16.5 | 16.6 |
| **Operating income** | **1,380.0** | **1,281.4** | **475.8** | **35.9** | **3,173.1** | **1,560.0** | **1,287.2** | **291.4** | **17.4** | **3,156.0** |
| Operating expenses | (363.4) | (549.3) | (81.2) | (14.4) | (1,008.3) | (363.3) | (421.0) | (95.2) | (19.5) | (899.0) |
| Depreciation and amortization | (68.9) | (31.7) | (7.6) | (0.7) | (108.9) | (54.0) | (54.5) | (15.3) | (0.8) | (124.6) |
| Expected credit loss and asset losses | (189.5) | (97.0) | (150.7) | — | (437.2) | (26.3) | (100.4) | (145.9) | — | (272.6) |
| Share of profit of associates | — | — | — | 6.3 | 6.3 | — | — | — | 15.7 | 15.7 |
| **Profit before tax** | **827.1** | **635.1** | **243.9** | **27.8** | **1,733.9** | **1,170.4** | **765.8** | **50.3** | **13.6** | **2,000.1** |

*Notes:*

(1) Consisted primarily of income and expenses that are not directly attributable to any specific segment.

(2) Consisted of net interest income from external clients or activities.

(3) Consisted of net interest income/(expense) attributable to transactions with other segments.

The following table sets forth, for the periods indicated, the operating income of each of our principal business segments.

| | For the years ended December 31, | | | | | | For the three months ended March 31, | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2018 | | 2019 | | 2020 | | 2020 | | 2021 | |
| | Amount | % of total | Amount | % of total | Amount | % of total | Amount | % of total | Amount | % of total |
| | *(in millions of RMB, except percentages)* | | | | | | | | | |
| Corporate banking business | 4,046.2 | 41.4% | 4,671.8 | 39.6% | 5,501.0 | 45.7% | 1,380.0 | 43.5% | 1,560.0 | 49.4% |
| Retail banking business | 4,012.8 | 41.0% | 4,523.9 | 38.4% | 5,286.1 | 43.9% | 1,281.4 | 40.4% | 1,287.2 | 40.8% |
| Treasury business | 1,467.7 | 15.0% | 2,204.7 | 18.7% | 1,385.8 | 11.5% | 475.8 | 15.0% | 291.4 | 9.2% |
| Others(1) | 250.9 | 2.6% | 394.8 | 3.3% | (125.9) | (1.1)% | 35.9 | 1.1% | 17.4 | 0.6% |
| **Total** | **9,777.6** | **100.0%** | **11,795.2** | **100.0%** | **12,047.0** | **100.0%** | **3,173.1** | **100.0%** | **3,156.0** | **100.0%** |

*Note:*

(1) Consisted primarily of income and expenses that are not directly attributable to any specific segment.

The operating income of corporate banking represented 41.4%, 39.6%, 45.7%, 43.5% and 49.4% of our total operating income for the years ended December 31, 2018, 2019 and 2020 and for the three months ended March 31, 2020 and 2021, respectively. Operating income from our corporate banking business increased by 15.5% from RMB4,046.2 million for the year ended December 31, 2018 to RMB4,671.8 million for the year ended December 31, 2019, primarily due to our focused development of corporate loan business which resulted in the increase of a net interest income from our corporate banking business. Operating income from our corporate banking business increased by 17.7% from RMB4,671.8 million for the year ended December 31, 2019 to RMB5,501.0 million for the year ended December 31, 2020, primarily due to growth in corporate business scale. For the same reason, the operating income from our corporate banking business increased by 13.0% from RMB1,380.0 million for the three months ended March 31, 2020 to RMB1,560.0 million for the three months ended March 31, 2021.

Operating income from our retail banking business represented 41.0%, 38.4%, 43.9%, 40.4% and 40.8% of our total operating income for the years ended December 31, 2018, 2019 and 2020 and for the three months ended March 31, 2020 and 2021, respectively. Operating income from our retail banking business increased by 12.7% from RMB4,012.8 million for the year ended December 31, 2018 to RMB4,523.9 million for the year ended December 31, 2019, primarily due to our efforts to innovate and develop our retail loan business, which resulted in the increase in the net interest income from our retail banking business. Operating income from our retail banking business increased by 16.8% from RMB4,523.9 million for the year ended December 31, 2019 to RMB5,286.1 million for the year ended December 31, 2020, primarily due to our efforts to innovate and develop our retail loan business, which resulted in the increase in the net interest income from our retail banking business. For the same reason, the operating income from our retail banking business slightly increased by 0.5% from RMB1,281.4 million for the three months ended March 31, 2020 to RMB1,287.2 million for the three months ended March 31, 2021.

Operating income from our treasury business represented 15.0%, 18.7%, 11.5%, 15.0% and 9.2% of our total operating income for the years ended December 31, 2018, 2019 and 2020 and for the three months ended March 31, 2020 and 2021, respectively. Operating income from our treasury business increased by 50.2% from RMB1,467.7 million for the year ended December 31, 2018 to RMB2,204.7 million for the year ended December 31, 2019, primarily due to the decrease in the cost of interbank liabilities, which was in turn a result of the decrease in the prevailing market interest rate. Operating income from our treasury business decreased by 37.1% from RMB2,204.7 million for the year ended December 31, 2019 to RMB1,385.8 million for the year ended December 31, 2020, primarily due to (i) the decrease of the average balance of rediscounted bills, resulting in the decrease in the interest income from rediscounted bills; (ii) the reduction in credit securities by the Bank to prevent and control credit risk effectively, resulting in the decrease of certain interest income from credit securities. Operating income from our treasury business decreased by 38.8% from RMB475.8 million for the three months ended March 31, 2020 to RMB291.4 million for the three months ended March 31, 2021, mainly due to the decrease in our credit debt securities in line with our prudent risk management policy.

Operating income from our other business segments represented 2.6%, 3.3%, 1.1% and 0.6% of our total operating income for the years ended December 31, 2018 and 2019 and for the three months ended March 31, 2020 and 2021, respectively, and we incurred loss which represented 1.1% of our total operating income for the year ended December 31, 2020. Operating income from our other business segments increased by 57.4% from RMB250.9 million for the year ended December 31, 2018 to RMB394.8 million for the year ended December 31, 2019, mainly due to the increase in gain on disposal of fixed assets. We recorded a loss from our other business segments amounted to RMB125.9 million for the year ended December 31, 2020, mainly due to the loss due to the decreased in the fair value of financial assets we invested. Operating income from our other business segments decreased by 51.5% from RMB35.9 million for the three months ended March 31, 2020 to RMB17.4 million for the three months ended March 31, 2021, mainly due to the decrease in yield for disposal of long-term assets.

## CASH FLOWS

The following table sets forth our cash flows for the periods indicated. For details, please refer to "Appendix I — Accountant's Report — I. Historical Financial Information of the Group — Consolidated Cash Flow Statements".

| | For the years ended December 31, | | | For the three months ended March 31, | |
|---|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2020 | 2021 |
| | (in millions of RMB) | | | | |
| Net cash generated/(used) from operating activities | 6,224.7 | (6,997.6) | 20,314.3 | (17,981.4) | (2,300.9) |
| — operating profit before changes in working capital | 1,119.1 | 2,346.2 | 3,151.2 | 828.9 | 830.2 |
| — changes in working capital | 5,819.9 | (8,325.1) | 18,233.3 | (18,746.6) | (3,107.7) |
| — income tax paid | (714.3) | (1,018.7) | (1,070.2) | (63.7) | (23.4) |
| Net cash (used)/generated in investing activities | (14,891.2) | 7,598.9 | (2,702.7) | 5,542.8 | (4,031.4) |
| Net cash generated/(used) from financing activities | 16,050.3 | (801.6) | (11,498.1) | 8,379.3 | 4,067.2 |
| Effect of foreign exchange rate changes on cash and cash equivalents | 39.1 | 21.3 | (109.1) | (11.2) | (98.5) |
| **Net (decrease)/ increase in cash and cash equivalents** | **7,422.9** | **(179.0)** | **6,004.4** | **(4,070.5)** | **(2,363.6)** |

### Cash Flows Generated from/(Used in) Operating Activities

We had a net cash outflow from operating activities of RMB17,981.4 million for the three months ended March 31, 2020. The cash inflow was primarily due to: (i) RMB4,375.8 million net increase of deposits from customers, (ii) RMB1,669.6 million net increase of borrowings from the central banks, (iii) RMB2,836.6 million net decrease in balances with central banks, (iv) RMB2,059.8 million net decrease of financial assets held under resale agreement and deposits and placements with banks and other financial institutions and (v) RMB828.9 million cash inflow generated from profit, which can be reconciled with profit before tax of RMB1,733.9 million after adjustments of non-cash items that mainly included (a) negative adjustment of RMB1,511.4 million of interest income from financial investments, (b) positive adjustment of RMB506.8 million of interest expense on debt securities issued and (c) positive adjustment of RMB437.2 million of expected credit losses and asset losses. The cash inflow was partially offset by cash outflow, which primarily consisted of (i) RMB12,091.8 million of loans and advances to customers; and (ii) RMB17,385.1 million of decrease in financial assets sold under repurchase agreements and deposits and placements from banks and other financial institutions.

We had a net cash outflow from operating activities of RMB2,300.9 million for the three months ended March 31, 2021. The cash inflow was primarily due to: (i) RMB12,092.4 million net increase of deposits from customers, (ii) RMB2,108.6 million increase of financial assets sold under repurchase agreements and deposits and placements from banks and other financial institutions and (iii) RMB830.2 million cash inflow generated from profit, which can be reconciled with profit before tax of RMB2,000.1 million after adjustments of non-cash items that mainly included (a) negative adjustment of RMB1,596.0 million of interest income from financial investments, (b) positive adjustment of RMB411.1 million of interest expense on debt securities issued and (c) positive adjustment of RMB272.6 million of expected credit losses and asset losses. The cash inflow was partially offset by cash outflow, which primarily consisted of (i) RMB14,164.8 million of loans and advances to customers; and (ii) RMB1,184.1 million of net increase in balances with central banks.

We had a net cash inflow from operating activities of RMB20,314.3 million for the year ended December 31, 2020. The cash inflow was primarily due to: (i) RMB33,674.0 million net increase of deposits from customers, (ii) RMB9,018.5 million net decrease of financial assets held under resale agreement and deposits and placements with banks and other financial institutions, (iii) RMB3,003.4 million net decrease in balances with the central bank and (iv) RMB3,151.2 million cash inflow generated from profit, which can be reconciled with profit before tax of RMB5,372.1 million after adjustments of non-cash items that mainly included (a) positive adjustment of RMB2,774.3 million of expected credit losses and asset losses, (b) positive adjustment of RMB1,778.2 million of interest expense on debt securities issued; (c) negative adjustment of RMB5,980.8 million of interest income from financial investments; and (d) negative adjustment of RMB881.3 million of net trading gain. The cash inflow was partially offset by cash outflow, which primarily consisted of (i) RMB52,354.6 million of loans and advances to customers; and (ii) RMB3,598.8 million of net decrease in financial assets sold under repurchase agreements and deposits and placements from banks and other financial institutions.

We had a net cash outflow from operating activities of RMB6,997.6 million for the year ended December 31, 2019. The cash outflow was primarily due to: (i) RMB31,114.2 million net increase of loans and advances to customers, (ii) RMB3,751.0 million net increase of financial assets held under resale agreement and deposits and placements with banks and other financial institutions, (iii) RMB6,865.3 million net decrease of financial assets sold under repurchase agreement and deposit and placement from banks and other financial intuitions and (iv) RMB1,018.8 million of income tax paid. The cash outflow was partially offset by cash inflow, which primarily consisted of (i) RMB27,334.8 million net increase of deposits from customers, (ii) RMB4,221.0 million net decrease of balances with the central banks, (iii) RMB1,956.7 million net increase of borrowings from the central banks and (iv) RMB2,346.2 million cash inflow generated from profit, which can be reconciled with profit before tax of RMB5,700.8 million after adjustments of non-cash items that mainly included (a) positive adjustment of RMB2,593.5 million from expected credit losses, (b) positive adjustment of RMB1,891.2 million of interest expense on debt securities issued, (c) negative adjustment of RMB6,256.6 million of interest income from financial investments and (d) negative adjustment of RMB1,133.3 million of net trading gain.

We had a net cash inflow from operating activities of RMB6,224.7 million for the year ended December 31, 2018. The cash inflow was primarily due to (i) RMB21,126.3 million net increase of deposits from customers, (ii) RMB11,953.4 million net decrease of financial assets held under resale agreement and deposits and placements with banks and other financial institutions, (iii) RMB3,472.9 million net decrease in balances with the central bank and (iv) RMB1,119.1 million cash inflow generated from profit, which can be reconciled with profit before tax of RMB5,034.2 million after adjustments of non-cash items that mainly included (a) positive adjustment of RMB1,717.1 million of expected credit losses, (b) positive adjustment of RMB1,990.5 million of interest expense on debt securities issued (c) negative adjustment of RMB6,523.4 million of interest income from financial investments and (d) negative adjustment of RMB1,223.0 million of net trading gain. The cash inflow was partially offset by cash outflow, which primarily consisted of (i) RMB19,341.2 million from loans and advances to customers and (ii) RMB12,116.1 million of net decrease in financial assets sold under repurchase agreements and deposits and placements from banks and other financial intuitions.

**Net Cash From/ (Used in) Investing Activities**

We recorded RMB4,031.4 million net cash outflow from investment activities for the three months ended March 31, 2021, which was primarily due to (i) RMB63,722.6 million cash paid to acquire financial investments, partially offset by (ii) RMB59,779.3 million cash received from disposal of financial investments.

We recorded RMB5,542.8 million net cash inflow from investment activities for the three months ended March 31, 2020, which was primarily due to (i) RMB46,356.5 million of cash received from disposal of financial investments, partially offset by (iii) RMB40,770.8 million cash paid to acquire financial investments.

We recorded RMB2,702.7 million net cash outflow from investment activities for the year ended December 31, 2020, which was primarily due to (i) RMB223,919.2 million cash paid to acquire financial investments, partially offset by (ii) RMB214,106.9 million cash received from disposal of financial investments and (iii) RMB7,435.3 million of cash received from investment in Chaoyang RCB.

We recorded RMB7,598.9 million net cash inflows from investment activities for the year ended December 31, 2019, which was primarily due to (i) RMB211,958.4 million of cash received from disposal of financial investments and (ii) RMB4,560.3 million of cash received from investment in Zhanjiang RCB, partially offset by (iii) RMB209,137.1 million cash paid to acquire financial investments.

We recorded RMB14,891.2 million net cash outflows from investment activities for the year ended December 31, 2018, which was primarily due to (i) RMB266,965.7 million cash paid to acquire financial investments and (ii) RMB1,178.0 million of cash paid for investment in Zhanjiang RCB, partially offset by (iii) RMB253,344.6 million cash received from disposal of financial investments.

**Net Cash Generated from Financing Activities**

We recorded RMB8,379.3 million and RMB4,067.2 million cash inflow from financing activities for the three months ended March 31, 2020 and 2021, respectively, which was primarily due to (i) cash repayments for debt securities issued of RMB29,870.0 million and RMB20,440.2 million, respectively, partially offset by (ii) cash received for debt securities issued of RMB38,294.9 million and RMB24,560.7 million, respectively, for the same periods.

We recorded RMB11,498.1 million cash outflow from financing activities for the year ended December 31, 2020, which was primarily due to (i) RMB118,939.9 million cash repayments for debt securities issued and (ii) RMB1,554.6 million cash payments for distribution of dividends, partially offset by (iii) RMB109,139.3 million cash received for debt securities issued.

We recorded RMB801.6 million cash outflow from financing activities for the year ended December 31, 2019, which was primarily due to (i) RMB87,114.2 million cash repayments for debt securities issued and (ii) RMB1,371.4 million cash payments for distribution of dividends, partially offset by (iii) RMB87,817.9 million cash received for debt securities issued.

We recorded RMB16,050.3 million cash inflow from financing activities for the year ended December 31, 2018, which was primarily due to (i) RMB102,640.0 million cash received for debt securities issued, partially offset by (ii) RMB85,140.9 million cash repayments for debt securities issued and (iii) RMB1,326.9 million cash payments for distribution of dividends.

## LIQUIDITY

We fund our loans and investment portfolios principally through our customer deposits. Although a majority of our deposits from customers have been short-term deposits, customer deposits have been, and we believe will continue to be, a stable source of our funding. Customer deposits with remaining maturities of less than one year represented 82.6%, 79.0%, 79.9% and 79.0% of total deposits from customers for the years ended December 31, 2018, 2019 and 2020 and for the three months ended March 31, 2021, respectively. For additional information about our short-term liabilities and sources of funds, please see "Assets and Liabilities — Liabilities and Sources of Funds" and "Supervision and Regulation — Other Operational and Risk Management Ratios".

We manage liquidity by monitoring the maturities of our assets and liabilities in an effort to ensure that we have sufficient funds to meet obligations as they become due. Based on our experience, a majority of the maturing deposits will be rolled over. We also maintain certain amount of cash and surplus deposit reserve, as well as certain financing ability on the interbank market to meet any unexpected liquidity requirements. Please see "Risk Management — Liquidity Risk Management".

The following table sets forth, as of March 31, 2021, the remaining maturities of our assets and liabilities.

| | As of March 31, 2021 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Current | Within 1 month | Between 1 and 3 months | Between 3 and 12 months | Between 1 and 5 years | More than 5 years | Indefinite | Total |
| | *in millions of RMB* | | | | | | | |
| **Assets** | | | | | | | | |
| Cash and deposits with central banks | 8,553.6 | — | — | — | — | — | 28,402.3 | 36,955.9 |
| Financial assets held under resale agreements and deposits and placements with banks and other financial institutions | 9,384.4 | 8,586.5 | 637.0 | 731.0 | — | — | — | 19,338.9 |
| Loans and advances to customers | 2,671.3 | 10,083.2 | 19,877.6 | 66,912.8 | 78,459.4 | 90,685.6 | — | 268,689.9 |
| Financial investments | 374.2 | 4,975.0 | 11,886.0 | 35,546.5 | 112,431.0 | 42,830.9 | 22,963.0 | 231,006.6 |
| Other financial assets | 243.4 | 1.5 | 4.6 | 6.4 | 0.3 | — | 11.0 | 267.2 |
| **Total financial assets** | **21,226.9** | **23,646.2** | **32,405.2** | **103,196.7** | **190,890.7** | **133,516.5** | **51,376.3** | **556,258.5** |
| **Financial liabilities** | | | | | | | | |
| Borrowings from central banks | — | 2,419.0 | 2,978.7 | 24,472.9 | — | — | — | 29,870.6 |
| Financial assets sold under repurchase agreements and deposits and placements from banks and other financial institutions | 1,848.4 | 26,754.2 | 6,822.5 | 10,165.7 | — | — | — | 45,590.8 |
| Financial liabilities at fair value through profit or loss | — | — | — | 211.1 | — | — | 19.1 | 230.2 |
| Deposits from customers | 189,045.7 | 22,876.8 | 21,286.7 | 74,516.4 | 81,915.7 | — | — | 389,641.3 |

| | As of March 31, 2021 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Current** | **Within 1 month** | **Between 1 and 3 months** | **Between 3 and 12 months** | **Between 1 and 5 years** | **More than 5 years** | **Indefinite** | **Total** |
| | *in millions of RMB* | | | | | | | |
| Debt securities issued | — | 2,953.1 | 13,955.6 | 26,350.6 | 7,526.1 | 3,995.5 | — | 54,780.9 |
| Lease liabilities | — | 10.9 | 21.3 | 82.5 | 245.2 | 73.2 | — | 433.1 |
| Other financial liabilities | 89.5 | 9.5 | 19.0 | 85.5 | — | — | — | 203.5 |
| **Total financial liabilities** | **190,983.6** | **55,023.5** | **45,083.8** | **135,884.7** | **89,687.0** | **4,068.7** | **19.1** | **520,750.4** |
| **Net position** | (169,756.7) | (31,377.3) | (12,678.6) | (32,688.0) | 101,203.7 | 129,447.8 | 51,357.2 | 35,508.1 |

We have been closely monitoring the maturity profile of our assets and liabilities while actively monitoring various liquidity indicators. As of March 31, 2021, our Bank's primary liquidity risk indicators, such as the liquidity ratio, core liability ratio and liquidity gap ratio, had all complied with the regulatory requirements. For details of our liquidity indicators, please see "Supervision and Regulation — Other Operational and Risk Management Ratios".

Although based on our experience, a majority of the maturing liabilities businesses, including maturing deposits, will be rolled over and continue to remain with us, we have still paid high attention to the negative net position for time bands from "current" to "between 1 and 3 months", and have actively taken various measures to ensure that we have sufficient funds to meet obligations as the liabilities become due. For example, (1) to enhance the stability of demand deposits by converting demand deposits to deposits of longer term narrow the gap of insufficient demand deposits; (2) to maintain sufficient cash and over-provision of reserve according to normal operation requirement; (3) to further explore financing channels and to maintain long term stable relationship with business partners; re-financing and re-factoring will be used to secure funds from the central bank so as to maintain a reasonable structure of liabilities; (4) further improvement of the reserve of liquidity by exploring financing resources. Our Bank will increase its holding in highly liquid assets of national treasury bonds, government policy bonds and bonds issued by local governments to improve its liquidity. For details of our liquidity risk management measures, please see "Risk Management — Liquidity Risk Management".

## CAPITAL RESOURCES

### Equity

The following table sets forth, for the years indicated, the components of the changes in our total equity attributable to shareholders and non-controlling interests.

| | *(in millions of RMB)* |
|---|---|
| Share capital | 5,740.5 |
| Revaluation reserve | 573.2 |
| Surplus reserve | 6,204.0 |
| General reserve | 5,017.8 |
| Undistributed profit | 12,053.1 |
| Non controlling interests | 246.0 |
| **As of December 31, 2018** | **29,834.6** |
| Share capital | 5,740.5 |
| Revaluation reserve | 1,229.5 |
| Surplus reserve | 6,705.0 |
| General reserve | 5,284.1 |
| Undistributed profit | 14,855.3 |
| Non controlling interests | 1,657.4 |
| **As of December 31, 2019** | **35,471.8** |
| Share capital | 5,740.5 |
| Revaluation reserve | 196.3 |
| Surplus reserve | 7,177.6 |
| General reserve | 5,767.7 |
| Undistributed profit | 17,263.6 |
| Non controlling interests | 2,497.2 |
| **As of December 31, 2020** | **38,642.9** |
| Share capital | 5,740.5 |
| Revaluation reserve | 100.0 |
| Surplus reserve | 7,177.6 |
| General reserve | 5,767.7 |
| Undistributed profit | 18,975.5 |
| Non controlling interests | 2,555.6 |
| **As of March 31, 2021** | **40,316.9** |

### Debt

#### *Debt Securities Issued*

Our Bank issued 10-year fixed-rate tier-two capital bonds with a total amount of RMB4,000 million in June 2017 at a coupon rate of 5.00% per annum, and the bonds pay interest annually. With the approval of the regulators, when in compliance with regulatory capital requirements or an equivalent or higher quality capital instrument is available to replace the bonds, our Bank has the option to redeem part or all of the bonds at par value on June 12, 2022. If our Bank does not exercise its right of redemption, the coupon rate will remain at 5% per annum on and after June 12, 2022. Such bonds have the write-down feature of tier-two capital instruments, which allows our Bank to write down the entire principal of the bonds and not to pay any accumulated unpaid interests when a regulatory triggering events as stipulated in the offering documents occurs. Such regulatory triggering events include where (i) CBRC believes that the issuer will not be financially sustainable without write-down; and (ii) the relevant authorities believe that the issuer will not be financially sustainable without capital injection from the public sector or furnishing support with equal effects. Based on relevant provisions of CBIRC, such tier-two capital bonds meet the criteria of a qualified tier-two capital instrument.

With the approvals of PBoC and CBIRC Guangdong Office, our Bank issued 3-year green financial bonds with a total amount of RMB2,000 million in January 2019 at a coupon rate of 3.50% per annum, and the bonds pay interest annually. In December 2020, our Bank issued another series of green financial bonds of an aggregate principal amount of RMB1.0 billion for term of three years with coupon rate of 3.75%, payable annually. Such green financial bonds may not be redeemed or put back prematurely.

Our Bank issued with the approvals of PBoC and CBIRC Guangdong Office, Sannong financial bonds in September 2020 of an aggregate amount of RMB2.0 billion for a term of three years with coupon rate of 3.62% payable annually.

Our Bank issued, with the approvals of PBoC and CBIRC Guangdong Office, SME financial bonds in March 2020 of an aggregate principal amount of RMB2.0 billion for a term of three years with coupon rate of 2.94%, payable annually. In March 2021, our Bank issued two series of SME financial bonds with aggregate principal amounts of RMB2.0 billion and RMB1.0 billion and coupon rates of 3.58% and 3.52% payable annually, respectively, and both with a term of three years.

***Certificates of Interbank Deposit***

We issued a number of certificates of interbank deposit in the aggregate amount of RMB51,571.4 million, RMB52,101.6 million and RMB39,293.9 million as of December 31, 2018, 2019 and 2020, respectively. The interest rates were in the range of 2.7%—5.1%, 2.8%—4.1%, 1.8%—3.4% and 1.9%—3.4% per annum for the years ended December 31, 2018, 2019 and 2020 and for the three months ended March 31, 2021, respectively.

**Capital Adequacy**

We are subject to capital adequacy requirements as promulgated by CBIRC. We shall maintain our capital adequacy ratio above the minimum level required by CBIRC during the transitional period.

The following table sets forth, as of the dates indicated, certain information relating to our capital adequacy ratio, calculated in accordance with the Capital Administrative Measures and PRC GAAP.

| | As of December 31, | | | As of March 31, |
|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 |
| | *(in millions of RMB, except percentages)* | | | |
| Core tier-one capital | 29,836.6 | 34,326.7 | 37,017.9 | 38,718.6 |
| Share capital | 5,740.5 | 5,740.5 | 5,740.5 | 5,740.5 |
| Surplus reserve | 6,204.0 | 6,705.0 | 7,177.6 | 7,177.6 |
| General reserve | 5,043.1 | 5,284.1 | 5,767.7 | 5,767.7 |
| Other comprehensive income | 72.9 | 1,229.5 | 196.3 | 100.0 |
| Undistributed profits | 12,674.8 | 14,855.3 | 17,263.6 | 18,975.4 |
| Qualified portion of non-controlling interest's capital | 101.5 | 512.3 | 872.3 | 957.4 |
| **Total core tier-one capital** | 29,836.6 | 34,326.7 | 37,017.9 | 38,718.6 |
| **Net core tier-one capital** | 29,824.6 | 34,321.2 | 36,474.7 | 38,164.5 |
| **Net tier-one capital** | 29,838.1 | 34,389.6 | 36,591.0 | 38,292.2 |
| **Tier-two capital** | 6,801.1 | 7,184.3 | 7,676.2 | 7,863.9 |
| **Net capital base** | 36,639.2 | 41,573.9 | 44,267.2 | 46,156.0 |
| **Total risk-weighted assets** | 246,896.1 | 271,759.7 | 316,197.4 | 331,271.1 |
| **Core tier-one capital adequacy ratio** | 12.08% | 12.63% | 11.54% | 11.52% |
| **Tier-one capital adequacy ratio** | 12.09% | 12.65% | 11.57% | 11.56% |
| **Capital adequacy ratio** | 14.84% | 15.30% | 14.00% | 13.93% |

We closely monitor capital adequacy ratios to ensure compliance with regulatory requirements. We may take various measures to comply with the applicable regulatory capital adequacy requirements, including (i) raising capital by issuing new shares and debt securities, (ii) increasing retained earnings by continually improving profitability, and (iii) managing the growth of our risk-weighted assets.

As of December 31, 2018, 2019 and 2020 and March 31, 2021, our core tier-one capital adequacy ratio was 12.08%, 12.63%, 11.54% and 11.52%, respectively, and our capital adequacy ratio was 14.84%, 15.30%, 14.00% and 13.93%, respectively, which were all in compliance with the CBIRC requirements.

## OFF-BALANCE SHEET COMMITMENTS

Our off-balance sheet commitments consisted primarily of financial guarantees and other credit commitments and capital commitments.

**Financial Guarantees and Other Credit Commitments**

Our financial guarantees and other credit commitments consisted primarily of bank acceptance bills, letters of credit, guarantee, and unused limit of credit cards. The following table sets forth the contractual amounts of our financial guarantees and other credit commitments as of the dates indicated.

| | As of December 31, | | | As of March 31, |
|---|---|---|---|---|
| | **2018** | **2019** | **2020** | **2021** |
| | *(in millions of RMB)* | | | |
| Bank acceptances | 1,484.9 | 1,226.6 | 1,580.7 | 1,673.8 |
| Letters of credit | 227.9 | 204.5 | 245.2 | 274.1 |
| Guarantee | 375.6 | 630.4 | 1,223.0 | 1,207.7 |
| Unused limit of credit cards | 7,771.4 | 9,036.8 | 9,655.1 | 9,968.1 |
| **Total** | **9,859.8** | **11,098.3** | **12,704.0** | **13,123.7** |

**Capital Commitments**

Our capital commitments consisted of properties and equipment which have been contracted but not provided for. The following table sets forth the capital commitments as of the dates indicated:

| | As of December 31, | | | As of March 31, |
|---|---|---|---|---|
| | **2018** | **2019** | **2020** | **2021** |
| | *(in millions of RMB)* | | | |
| Capital commitments of equipment contracted but not yet paid | 267.4 | 606.8 | 494.8 | 315.0 |

Our total off-balance sheet commitments increased by 15.6% from RMB10,127.2 million as of December 31, 2018 to RMB11,705.1 million as of December 31, 2019, primarily due to the increase of our unused limit of credit cards. Our total off-balance sheet commitments increased by 12.8% from RMB11,705.1 million as of December 31, 2019 to RMB13,198.8 million as of December 31, 2020, primarily due to the increase in bank acceptance bill, letters of credit, letters of guarantees and unused limit of credit cards. Our total off-balance sheet commitments further increased by 1.8% to RMB13,438.7 million for the three months ended March 31, 2021, primarily due to customer consumption resumed from the COVID-19 impact, which is in line with the COVID-19 recovery policies.

## TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

The following table sets forth the face value of our known contractual obligations by remaining contract maturity classified into the categories specified below as of March 31, 2021. For the remaining maturities of our assets and liabilities as of March 31, 2021, please see "— Liquidity".

| | As of March 31, 2021 | | | |
|---|---|---|---|---|
| | Less than 1 year | Between 1 and 5 years | More than 5 years | Total |
| | *(in millions of RMB)* | | | |
| **On-balance sheet** | | | | |
| Interbank certificates of deposits | 41,171.5 | — | — | 41,171.5 |
| Tier-two capital bonds | — | — | 3,995.7 | 3,995.7 |
| Green financial bonds | 1,841.9 | 999.5 | — | 2,841.4 |
| SME financial bonds | — | 4,618.7 | — | 4,618.7 |
| Sannong financial bonds | — | 1,918.5 | — | 1,918.5 |
| **Off-balance sheet** | | | | |
| Bank acceptance bill | 1,673.8 | — | — | 1,673.8 |
| Letters of credit | 274.1 | — | — | 274.1 |
| Letters of guarantees | 850.8 | 332.9 | 24.0 | 1,207.7 |
| Unused limit of credit cards | 9,968.1 | — | — | 9,968.1 |
| **Total** | 55,780.2 | 7,869.6 | **4,019.7** | **67,669.5** |

## RELATED PARTY TRANSACTIONS

During the Track Record Period, we entered into transactions with certain of our related parties, such as taking deposits from, extending credit facilities to and providing other banking services to, the relevant related parties. These transactions were conducted on normal commercial terms and in the ordinary course of our business. Our Directors believe that these related party transactions were carried out on an arm's-length basis and would not distort our results of operations during the Track Record Period or make such results not reflective of our future performance. Please see Note 40 to the Accountant's Report attached hereto as Appendix I to this prospectus.

## QUANTITATIVE AND QUALITATIVE ANALYSIS OF MARKET RISK

Market risk is the risk of financial loss arising from changes in the value of a financial instrument as a result of changes in interest rates, foreign exchange rates, equity prices and commodity prices and other market changes that affect market risk-sensitive instruments. We are exposed to market risk primarily through the assets and liabilities on our balance sheet, as well as our off-balance sheet commitments and guarantees. The market risks to which we are primarily exposed are interest rate risk and exchange rate risk. We have imposed a set of exposure limits on our investment and trading activities in an effort to manage potential market losses within acceptable limits.

### Interest Rate Risk

The primary source of our interest rate risk arises from mismatches in the maturity or repricing periods of our banking book. Maturity mismatches may cause net interest income to be affected by changes in the prevailing level of interest rates. Currently, we primarily use gap analysis and sensitivity analysis to assess our exposure to interest rate risks. In addition, different pricing bases for different assets and liabilities may also lead to interest rate risk for our assets and liabilities within the same repricing period. We manage our interest rate risk exposure primarily by adjusting the maturity profile and repricing pattern of our banking book based on our assessment of potential changes in the interest rate environment.

*Repricing Gap Analysis*

The following table sets forth, as of March 31, 2021, the results of our gap analysis based on the earlier of (i) the next expected repricing dates, and (ii) the final maturity dates for our assets and liabilities.

| | As of March 31, 2021 | | | | | |
|---|---|---|---|---|---|---|
| | Up to 3 months | 3 months up to 1 year | 1 year up to 5 years | Over 5 years | Non-interest-bearing | Total |
| | *(in millions of RMB)* | | | | | |
| **Assets** | | | | | | |
| Cash and deposits with central banks | 34,326.0 | — | — | — | 2,629.9 | 36,955.9 |
| Financial assets held under resale agreements and deposits and placements with banks and other financial institutions | 18,607.9 | 731.0 | — | — | — | 19,338.9 |
| Loans and advances to customers | 43,453.6 | 175,946.8 | 25,529.8 | 23,759.7 | — | 268,689.9 |
| Financial investments | 18,132.6 | 36,852.4 | 110,547.7 | 42,540.2 | 22,933.7 | 231,006.6 |
| Other financial assets[(1)] | — | — | — | — | 267.2 | 267.2 |
| **Total financial assets** | **114,520.1** | **213,530.2** | **136,077.5** | **66,299.9** | **25,830.8** | **556,258.5** |
| **Liabilities** | | | | | | |
| Borrowings from central bank | 5,397.8 | 24,472.8 | — | — | — | 29,870.6 |
| Financial assets sold under repurchase agreements and deposits and placements from banks and other financial institutions | 35,425.1 | 10,165.7 | — | — | — | 45,590.8 |
| Financial liabilities at fair value through profit or loss | — | — | — | — | 230.2 | 230.2 |
| Deposits from customers | 233,044.7 | 74,516.4 | 81,865.7 | — | 214.5 | 389,641.3 |
| Debt securities issued | 16,908.7 | 26,350.6 | 7,526.1 | 3,995.5 | — | 54,780.9 |
| Other financial liabilities[(2)] | 32.1 | 82.6 | 245.2 | 73.2 | 203.5 | 636.6 |
| **Total financial liabilities** | **290,808.4** | **135,588.1** | **89,637.0** | **4,068.7** | **648.2** | **520,750.4** |
| **Repricing gap** | (176,288.3) | 77,942.1 | 46,440.5 | 62,231.2 | 25,182.6 | 35,508.1 |

*Notes:*

(1) Consisted primarily of interest receivable, fee and commission receivable from credit card installment plans, refundable deposits.

(2) Consisted primarily of interest payable, clearing and settlement and purchases payable.

***Sensitivity Analysis***

We use sensitivity analysis to measure the potential effect of changes in interest rates on our net interest income. The following table sets forth, as of the dates indicated, the results of our interest rate sensitivity analysis based on our assets and liabilities at the same date.

| | As of December 31, | | | | | | As of March 31, | |
|---|---|---|---|---|---|---|---|---|
| | 2018 | | 2019 | | 2020 | | 2021 | |
| | Change in net profit | Other comprehensive income | Change in net profit | Other comprehensive income | Change in net profit | Other comprehensive income | Change in net profit | Other comprehensive income |
| | *(in millions of RMB)* | | | | | | | |
| 100 basis-point increase | (391.7) | (1,132.7) | (356.9) | (1,189.0) | (419.7) | (1,927.6) | (937.7) | (2,003.9) |
| 100 basis-point decrease | 391.7 | 1,185.4 | 356.9 | 1,245.5 | 419.7 | 2,069.7 | 937.7 | 2,090.9 |

Based on our assets and liabilities as of December 31, 2020, if interest rates increase (or decrease) by 100 basis points instantaneously, our net interest income for the year following December 31, 2020 would decrease (or increase) by RMB419.7 million. If interest rates increase by 100 basis points instantaneously, our other comprehensive income for the year immediately following December 31, 2020 would decrease by RMB1,927.6 million. If interest rates decrease by 100 basis points instantaneously, our other comprehensive income for the year immediately following December 31, 2020 would increase by RMB2,069.7 million. This sensitivity analysis, which is based on a static interest rate risk profile of assets and liabilities, is used for risk management purposes only. The analysis measures only the impact of changes in the interest rates within a year, which are reflected by the repricing of our assets and liabilities within a year, on our net interest income. The analysis is based on the following assumptions: (i) all assets and liabilities that are repriced or due within three months and in more than three months but within one year, as shown in the table under "Repricing Gap Analysis", are repriced or due at the beginning of the respective periods; (ii) there is a parallel shift in the yield curve and in interest rates; and (iii) there are no other changes to the portfolio, and all positions will be retained and rolled over upon maturity. Actual changes in our net interest income resulting from increases or decreases in interest rates may differ from the results of this sensitivity analysis.

**Exchange Rate Risk**

Exchange rate risk mainly comes from long and short exposure of net assets in different foreign currencies. We mainly evaluate exchange rate risk by monitoring the cumulative proportion of foreign exchange exposure position and comprehensive foreign exchange settlement and sale position, and manage exchange rate risk by controlling the cumulative foreign exchange exposure position and the combination of foreign exchange settlement and sale position. The risk posed by fluctuating exchange rate is limited to our business operation and financial condition.

## CAPITAL EXPENDITURES

Our capital expenditures for the years ended December 31, 2018, 2019 and 2020 and March 31, 2021 were primarily for the acquisition of properties for, and refurbishment of, our branches, purchases of self-service banking equipment and development of our information system.

Our capital expenditures include addition in property and equipment, right-of-use assets, intangible assets and other long-term assets. Our capital expenditures increased by 98.2% from RMB98.5 million in 2018 to RMB195.3 million in 2019. Our capital expenditures increased by 202.3% from RMB195.3 million in 2019 to RMB590.3 million in 2020. Our capital expenditures decreased by 44.8% from RMB235.2 million for the three months ended March 31, 2020 to RMB129.8 million for the three months ended March 31, 2021. The foregoing amounts and purposes may change depending on business conditions.

## CRITICAL ACCOUNTING ESTIMATES AND JUDGMENT

In the application of our accounting policies described in Note 3 of the Accountant's Report included in Appendix I to this prospectus, the management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

### Measurement of Expected Credit Loss

The following accounting estimates and judgments applied from January 1, 2018.

The measurement of the expected credit loss allowance for financial assets at amortized cost and FVOCI and for exposures arising from some loan commitments and financial guarantee contracts, is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behavior (the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in Note 42.1 Credit risk.

It requires a lot of significant judgments to measure ECL under relevant accounting standards, such as:

- Segmentation of business operations sharing similar credit risk characteristics, selection of appropriate models and determination of relevant key parameters;
- Criteria for determining a significant increase in credit risk, default and credit impairments;
- The use of economic scenario, economic indicator and weight for forward-looking measurement;
- The management's accumulated adjustment for significant uncertainties that are not included in the model; and
- Future cash flows forecast on corporate loans and debt investments at stage 3.

Our expected credit losses and asset losses rate (the "**ECL rate**") is calculated under the expected credit losses impairment model by dividing expected credit loss allowance by the balance of related assets. The ECL rate for our loans and advances to customers measured at amortized cost decreased from 4.96% for the year ended December 31, 2018 to 3.87% for the year ended December 31, 2019, primarily due to the fact that our personal loans to retail banking customers, which has a relatively lower ECL rate, increased from RMB49,541.7 million to RMB80,048.3 million as of December 31, 2018 and 2019, respectively, and further decreased to

3.13% for the year ended December 31, 2020 because corporate loans, which has a relatively higher ECL rate, maintained relatively stable as of December 31, 2019 and 2020, respectively, while our NPL ratio decreased from 1.52% to 0.94% as of the same dates. The ECL rate for our loans and advances to customers measured at amortized cost decreased from 3.13% for the year ended December 31, 2020 to 3.07% for the three months ended March 31, 2021, primarily due to the increase in newly extended loans and advances to customers that are classified as normal with relatively lower ECL rate. In addition, our ECL rate for financial investment measured at amortized cost decreased from 0.17% for the year ended December 31, 2018 to 0.14% for the year ended December 31, 2019, and further decreased to 0.11% for the year ended December 31, 2020, primarily due to the decrease of financial investment in corporate bonds and non-standard assets that have relatively higher credit risk and ECL rate, which was resulted from our prudent investment policy adopted during the Track Record Period. The ECL rate for financial investment measured at amortized cost remained stable at 0.11% and 0.10% for the year ended December 31, 2020 and the three months ended March 31, 2021, respectively.

Detailed information on the above judgments and estimates is set out in Note 42.1.

**Goodwill Impairment**

Goodwill impairment reviews are undertaken annually or more frequently, and it is also needed if events or changes indicate a potential impairment. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash generating unit (the "**CGU**"). Our Group forecasts future cash flow of the CGU, and applies appropriate discount rate for the calculation of the present value of future cash flow. For the business combination of Zhanjiang RCB and Chaoyang RCB, the recoverable amount of the asset group is based on the six-year budget and ten-year budget approved by the management respectively, which is then estimated based on a fixed growth rate and calculated using the cash flow forecast method. Our cash flow projection periods are determined based on the forecast of the local economic development, the banking industry growth, and with reference to our past operating experience. We estimated that Zhanjiang City and Shantou City, where the two banks are located, will experience a relatively high growth for a period more than five years before the economic growths of these two cities reach a stable level. In addition, the development of the banking industry is generally in line with the local economic development. Accordingly, we have incorporated the aforementioned factors into the cash projection by using six and ten years of projection periods for Zhanjiang RCB and Chaoyang RCB respectively to reflect management's estimation of the future local economic development and the related banking business growth.

| | Zhanjiang RCB | | | Chaoyang RCB | |
|---|---|---|---|---|---|
| | As of December 31, 2019 | As of December 31, 2020 | As of March 31, 2021 | As of December 31, 2020 | As of March 31, 2021 |
| Stable period growth rate | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% |
| Pre-tax discount rate | 18.07% | 19.64% | 19.69% | 14.96% | 15.02% |

The growth rate is the weighted average growth rate used by our Group to forecast the cash flow after six years for Zhanjiang RCB and ten years for Chaoyang RCB respectively, which is consistent with the forecast data contained in the industry report. The management uses the cost of equity as the discount rate which can reflect the specific risks of the relevant asset group. The above assumptions are used to analyze the recoverable amounts of the asset group within the business division.

The table below sets forth the results of the recoverable amount less the carrying amount for the indicated dates:

| | As of December 31, 2018 | As of December 31, 2019 | As of December 31, 2020 | As of March 31, 2021 |
|---|---|---|---|---|
| Zhanjiang RCB | — | 406.5 | 15.3 | 71.0 |
| Chaoyang RCB | — | — | 298.3 | 305.4 |

The recoverable amounts of the asset group would equal its carrying amount if each of the key assumptions were to change as follows, with all other variables held constant:

| | Zhanjiang RCB | | | Chaoyang RCB | |
|---|---|---|---|---|---|
| | As of December 31, 2019 | As of December 31, 2020 | As of March 31, 2021 | As of December 31, 2020 | As of March 31, 2021 |
| Stable period growth rate | -3.46% | -0.09% | -0.44% | -2.45% | -2.88% |
| Pre-tax discount rate | 1.64% | 0.08% | 0.36% | 1.67% | 1.72% |

Our Directors and management have considered and assessed reasonably possible changes for other key assumptions and have not identified other instances that could cause the carrying amount of the CGUs to exceed its recoverable amount.

**Fair Value of Financial Instruments**

The Group uses valuation techniques to estimate the fair value of financial instruments which are not quoted in an active market. These valuation techniques include the use of recent transaction prices of the same or similar instruments, discounted cash flow analysis and generally accepted pricing models. To the extent practical, market observable inputs and data, such as interest rate yield curves, are used when estimating fair value through a valuation technique. Where market observable inputs are not available, they are estimated using assumptions that are calibrated as closely as possible to market observable data. However, areas such as the credit risk of the Group and the counterparty, liquidity, volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the estimated fair value of financial instruments.

During the Track Record Period, we had certain financial assets categorized within Level 3 of fair value measurement (the "**Level 3 Financial Assets**"), which amounted to RMB25,719.6 million, RMB23,286.9 million, RMB32,833.2 million and RMB32,099.3 million, respectively, as of December 31, 2018, 2019 and 2020 and March 31, 2021, representing approximately 18.3%, 18.4%, 22.9% and 21.6%, respectively, of our total assets as of the same dates. For details, please see Note 42.4 to the Accountant's Report in Appendix I to this prospectus.

During the Track Record Period, the Group has established an independent internal valuation process for financial assets and liabilities in compliance with the applicable laws, regulations and accounting policies. Our Financial Market Department and Investment Banking and Wealth Management Department take the lead to carry out the valuation of financial assets and financial liabilities. The Operation Management Department reflect the valuation results in our financial statements according to our accounting standards. The information on financial assets and liabilities for disclosure purposes is prepared by our Financial Department based on the independently reviewed valuation results.

Details of the fair value measurement of financial assets, particularly the fair value hierarchy, the valuation techniques and key inputs, including significant unobservable inputs, the relationship of unobservable inputs to fair value are disclosed in Note 42.4 of the Accountant's Report in Appendix I which was issued by our Reporting Accountant in accordance with Hong Kong Standard on Investment Circular Reporting Engagement 200 "Accountants' Report on Historical Financial Information in Investment Circulars" (the "**HKSIR 200**").

In respect of the valuation of the Level 3 Financial Assets, our Directors have carefully examined the valuation policy, the financial statements prepared in accordance with the IFRS and other supporting documents, and have studied the valuation model, methodologies and techniques. Based on the above, our Directors are of the view that the valuation performed during the Track Record Period is fair and reasonable and our financial statements are properly prepared. Our Directors are satisfied with the valuation of the Level 3 Financial Assets during the Track Record Period.

In respect of the valuation of the Level 3 Financial Assets, the Joint Sponsors have, among other things, (i) reviewed the relevant notes included in the Accountant's Report to acquire general understanding of relevant valuation techniques adopted for valuation of our financial assets; (ii) discussed with us to understand our policies and procedures in relation to the valuation of our Level 3 Financial Assets, the valuation methodologies taken and the external valuer engaged (with respect to certain rights to earnings on credit assets) by us; and (iii) discussed with our Reporting Accountant to understand the procedures they have performed in relation to such valuation for the purpose of expressing its opinion on the historical financial information of the Group for the Track Record Period as a whole, and nothing has come to the Joint Sponsors' attention that would cause the Joint Sponsors to disagree with the view of our Directors disclosed above.

**Taxes**

There are certain transactions and activities in the ordinary course of the Group's business for which the ultimate tax effect is uncertain. The Group made certain estimation and judgement for items of uncertainty in the application of tax legislations, taking into account existing tax legislation and past practice of tax authorities. Where the final tax outcome of these matters is different from the amounts that were initially estimated, based on management's assessment, such differences will affect the current income tax and deferred income tax during the period in which such a determination is made.

**Consolidation of Structured Entities**

Where the Group acts as asset manager of or investor in structured entities, the Group makes significant judgement on whether the Group controls and should consolidate these structured entities. When performing this assessment, the Group assesses the Group's contractual rights and obligations in light of the transaction structures, and evaluates the Group's power over the structured entities, performs analysis and tests on the variable returns from the structured entities, including but not limited to commission income and asset management fees earned as the asset manager, the retention of residual income, and, if any, the liquidity and other support provided to the structured entities. The Group also assesses whether it acts as a principal or an agent through analysis of the scope of its decision-making authority over the structured entities, the remuneration to which it is entitled for asset management services, the Group's exposure to variability of returns from its other interests in the structured entities, and the rights held by other parties in the structured entities.

**INDEBTEDNESS**

As of July 31, 2021 (being the date for the purpose of this indebtedness statement), we have the following indebtedness:

- interbank certificates of deposit in an aggregate principal amount of RMB40,530.0 million;
- tier-two capital bonds in an aggregate principal amount of RMB4,000.0 million;
- green financial bonds in an aggregate principal amount of RMB3,000.0 million;
- SME financial bonds in an aggregate principal amount of RMB5,000.0 million;
- Sannong financial bonds in an aggregate principal amount of RMB2,000.0 million;
- lease liabilities in an amount of RMB416.3 million; and
- loan commitments, bank acceptances, letters of credit and letters of guarantee issued, other commitments and contingencies that arose from our normal course of banking business.

On April 23, 2021, we approved a proposal on the public issuance of eligible tier-two capital instruments of our Bank at a shareholders' general meeting. Our Bank plans to issue eligible tier-two capital instruments of no more than RMB4.0 billion in the domestic markets to replenish our Bank's tier-two capital. The eligible tier-two capital instruments issuance plan is further subject to the approval by the relevant regulatory authorities.

Except as disclosed above, we did not have, as of July 31, 2021, any material and outstanding mortgages, charges, debentures, other debt capital (issued or agreed to be issued), bank overdrafts, loans, liabilities under acceptance or other similar indebtedness, hire purchase and finance lease commitments or any guarantees or other material contingent liabilities. Our Directors have confirmed that there has not been any material change in our indebtedness or contingent liabilities since July 31, 2021 up to the date of this prospectus.

**RULE 13.13 TO RULE 13.19 OF THE LISTING RULES**

We confirm that there are no circumstances which will trigger disclosure requirements under Rule 13.13 to Rule 13.19 of the Listing Rules.

**DIVIDEND**

**Dividend Policy**

Our Board of Directors is responsible for submitting proposals (adopted by two-thirds majority) in respect of dividend payments, if any, to the Shareholders' general meeting for approval. The determination of whether to pay dividends and the amount of such dividends is based on our results of operations, cash flows, financial condition, capital adequacy ratios, future business prospects, statutory and regulatory restrictions on the payment of dividends by us and other factors that our Board of Directors considers relevant. Subject to our Articles of Association and laws and regulations on profit distribution by banks, our Board of Directors will recommend dividend payments to our Shareholders' general meetings. Under the PRC Company Law and our Articles of Association, all of our Shareholders holding the same class of shares have equal rights to dividends and other distributions proportionate to their shareholding.

Under PRC laws and our Articles of Association, we may only pay dividends out of our distributable profits. Our distributable profit represents the lowest of (i) our consolidated net profit attributable to our equity holders for a period plus the distributable profits or net of the accumulated losses, if any, at the beginning of such period as determined under PRC GAAP, (ii) the unconsolidated net profit of our Bank for the period plus distributable profits or net of accumulated losses, if any, at the beginning of such period, as determined under PRC GAAP, (iii) our consolidated net profit attributable to our equity holders for the period plus distributable profits or net of accumulated losses, if any, at the beginning of such period, as determined under IFRS, and (iv) the unconsolidated net profit of our Bank for the period plus distributable profits or net of accumulated losses, if any, at the beginning of such period, as determined under IFRS, less:

- appropriations we are required to make to the statutory reserve, which is currently 10% of our unconsolidated net profit as determined under PRC GAAP, until such reserve reaches an amount equal to 50% of our registered capital;

- a general reserve we are required to set aside; and

- appropriations to a discretionary surplus reserve as approved by our Shareholders in an annual general meeting.

Under the current PRC GAAP and IFRS, we do not expect there is any material difference between our net profit prepared in accordance with PRC GAAP and IFRS which may materially impact the amount of dividend that we can declare unless new accounting standards or related amendment under PRC GAAP and IFRS are issued which would result in different adoption time and resulted in non-convergence between these two accounting standards.

Under relevant MOF regulations, we are required to maintain a general reserve no less than 1.5% of the balance of our risk-bearing assets from our net profits after tax. This general reserve constitutes part of our reserves. As of March 31, 2021, the balance of our general reserve amounted to RMB5,767.7 million, which were in compliance with all MOF requirements in respect of appropriation of the general reserve.

Any distributable profit that is not distributed in a given year is retained and available for distribution in subsequent years. However, generally we do not pay any dividends in a year in which we do not have any distributable profit in respect of that year. The payment of any dividends by us must also be approved at a shareholders' general meeting. We are prohibited from making any profit distributions to our Shareholders before recovering our accumulated losses and making appropriations to the statutory surplus reserve, the general reserve, and any discretionary surplus reserve as approved by our Shareholders' general meeting. If we make any profit distributions in violation of these rules, our Shareholders are required to return the amounts they received in such profit distributions to us.

CBIRC has the authority to prohibit any bank that fails to meet the relevant capital adequacy ratio requirements, or has violated other relevant PRC banking regulations, from paying dividends or making other forms of distributions. As of March 31, 2021, we had a capital adequacy ratio of 13.93%, a tier-one capital adequacy ratio of 11.56% and a core tier-one capital adequacy ratio of 11.52%, which were all in compliance with the relevant CBIRC regulations. Please see "Supervision and Regulation — Supervision over Capital Adequacy — Regulatory Requirements in respect of Capital Adequacy Ratios" and "Supervision and Regulation — Principal Regulators — CBIRC".

**Dividend Declared during the Track Record Period**

On March 28, 2018, our Shareholders approved and passed the resolution in respect of the dividends in an amount of RMB1,308.8 million for the year ended December 31, 2017 in a shareholders general meeting and RMB1,308.8 million had since been declared and distributed in respect of the year ended December 31, 2017. On April 25, 2019, our Shareholders approved and passed the resolution in respect of the dividends in an amount of RMB1,366.2 million for the year ended December 31, 2018 in a shareholders general meeting. On April 28, 2020, our Shareholders approved and passed a resolution regarding the distribution of dividends of RMB1,492.5 million in respect of the year ended December 31, 2019 at a shareholders' general meeting. On April 23, 2021, our Shareholders approved and passed a resolution regarding the distribution of dividends of RMB1,492.5 million in respect of the year ended December 31, 2020 at a shareholders' general meeting. As of the date of this prospectus, the abovementioned dividends had been fully paid and there was no declared but unpaid dividends.

**Special Dividend**

Pursuant to the resolution of our Shareholders passed on the general meeting held on April 25, 2019, we proposed to distribute special cash dividend of RMB0.15 per Share to our Shareholders prior to the completion of the Global Offering and the Listing. Such special cash dividend has subsequently been confirmed to be distributed to Shareholders whose names appear on our register of members on August 31, 2021 pursuant to the resolution of our Board of Directors dated September 6, 2021. The total amount of such dividend is approximately RMB861.1 million and is expected to be paid after the entering into of the Price Determination Agreement but before the Listing Date with our internal resources from our distributable profits.

As the record date of such dividend is prior to the Listing Date, our H Shareholders will not be entitled to such special dividend. As of the Latest Practicable Date, such special dividend has not been paid. As our Bank can control whether or not to distribute the special dividend through controlling the progress of the Listing, such special dividend has not been recognized during the Track Record Period.

Dividends paid in prior periods may not be indicative of future dividend payments. We cannot guarantee when, if and in what form or size, dividends will be paid in the future.

## LISTING EXPENSES

We expect to incur listing expenses of approximately RMB228.9 million (assuming an Offer Price of HK$8.32 per H Share, being the mid-point of the indicative Offer Price range as stated in this prospectus, and assuming the Overallotment Option is not exercised) representing professional fees, underwriting commission and fees incurred in connection with the Global Offering and the Listing. We have incurred listing expenses of RMB36.4 million up to March 31, 2021 which were included in "other assets" in the consolidated statements of financial position and are expected to be accounted for as a deduction from equity upon listing. None of the listing expenses were reflected in our consolidated statements of comprehensive income during the Track Record Period. Listing expenses of approximately RMB192.5 million are expected to be incurred after March 31, 2021, of which RMB15.7 million is expected to be charged to our consolidated statement of comprehensive income and RMB176.8 million is expected to be accounted for as a deduction from equity. The listing expenses above are the latest practicable estimate for reference only, and the actual amount may differ from this estimate. Our Directors do not expect such expenses to have a material adverse impact on our results of operations for the year ending December 31, 2021.

**UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS**

The following unaudited pro forma statement of adjusted net tangible assets is prepared based on our net tangible as of March 31, 2021 derived from our financial information as of March 31, 2021 as set out in the Accountant's Report set forth in Appendix I to this prospectus, adjusted as described below.

The unaudited pro forma statement of adjusted net tangible assets has been prepared to show the effect on our net tangible assets as of March 31, 2021 as if the Global Offering had occurred on March 31, 2021. The unaudited pro forma adjusted net tangible assets per share is calculated in accordance with Rule 4.29 of the Listing Rules.

The unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and, as a result, may not be an accurate reflection of our financial position.

| | **Unaudited consolidated net tangible assets as of March 31, 2021[(1)]** | **Special dividend[(2)]** | **Estimated net proceeds from the Global Offering[(3)]** | **Unaudited pro forma adjusted consolidated net tangible assets** | **Unaudited pro forma adjusted consolidated net tangible assets per share** | |
|---|---|---|---|---|---|---|
| | | | *(in thousand of RMB)* | | *(RMB)[(4)]* | *(HK$)[(5)]* |
| Based on the Offer Price of HK$7.92 per Offer Share . . . . . . . . . . . . . . . | 37,149,737 | (861,068) | 7,345,172 | 43,633,841 | 6.33 | 7.63 |
| Based on the Offer Price of HK$8.71 per Offer Share . . . . . . . . . . . . . . . | 37,149,737 | (861,068) | 8,083,217 | 44,371,886 | 6.44 | 7.76 |

*Notes:*

(1) The consolidated net tangible assets attributable to the shareholders of the Bank as of March 31, 2021 are based on the consolidated net assets attributable to the shareholders of the Bank of RMB37,761.2 million, after deduction of intangible assets of RMB91.0 million and goodwill of RMB520.5 million.

(2) Pursuant to the resolutions of the Shareholders general meeting on April 25, 2019, the Bank declared a special cash dividend of RMB1.5 per ten shares to its Shareholders before the completion of the Global Offering. Following that, pursuant to the resolutions of our Board of Directors on September 6, 2021, the Bank confirmed to declare the special cash dividend to its Shareholders whose name appear on the Bank's register of members on August 31, 2021. The total amount of such dividend is approximately RMB861.1 million, which is expected to be paid after the entering into of the Price Determination Agreement but before the Listing Date. For the purpose of this unaudited pro forma information, the special dividend is regarded as part of the subject matter of the Global Offering and the amount of dividend of RMB861.1 million is calculated based on the number of shares of 5,740 million shares of the Bank as at March 31, 2021.

(3) The estimated net proceeds from the Global Offering for the purpose of unaudited pro forma adjusted consolidated net tangible assets are based on the Offer Price of HK$7.92 per Offer Share (being the low-end of the proposed Offer Price range) and HK$8.71 per Offer Share (being the high-end of the proposed Offer Price range) and there are 1,148,091,000 Offer Shares issued in the Global Offering,

after deduction of the underwriting fees and other related listing expenses payable by the Bank and taking no account of any Shares which may be issued upon the exercise of the Over-allotment Option.

(4) The unaudited pro forma adjusted consolidated net tangible assets per Share are arrived at after the adjustments referred to in the preceding paragraphs and on the basis of 6,888,545,510 Shares in issue assuming that the Global Offering has been completed on March 31, 2021, and taking no account of any Shares which may be issued upon the exercise of the Over-allotment Option.

(5) For the purpose of this unaudited pro forma adjusted net tangible assets, the balances stated in Renminbi are converted into Hong Kong dollars at a rate of RMB0.8304 to HK$1.00. No representation is made that the Hong Kong dollar amounts have been, could have been or could be converted to Renminbi, or vice versa, at that rate.

(6) No adjustment has been made to reflect any trading results or other transactions of the Group entered into subsequent to March 31, 2021. In particular, this unaudited pro forma financial information does not account for the cash dividend of RMB1,492.5 million declared on April 23, 2021. Had the dividends been taken into account, the unaudited pro forma adjusted net tangible assets attributable to the shareholders of the Bank would have been RMB42,141 million and RMB42,879 million, and the unaudited pro forma adjusted net tangible assets per Share would have been RMB6.12 (HK$7.37) and RMB6.22 (HK$7.50) per Share based on the Offer Price of HK$7.92 and HK$8.71 per Offer Share, respectively.

## WORKING CAPITAL

Rule 8.21A(1) and Paragraph 36 of part A of Appendix 1A of the Listing Rules require this prospectus to include a statement by our Directors that, in their opinion, the working capital available to us is sufficient for at least 12 months from the publication of this prospectus or, if not, how it is proposed to provide the additional working capital our Directors consider to be necessary. We are of the view that the traditional concept of "working capital" does not apply to banking businesses such as ours. We are regulated in the PRC by, among other things, PBoC and CBIRC. These regulatory authorities impose minimum capital adequacy and liquidity requirements on commercial banks operating in the PRC. Rule 8.21A(2) of the Listing Rules provides that such a working capital statement will not be required to be made by an issuer whose business is entirely or substantially that of the provision of financial services, provided that the Hong Kong Stock Exchange is satisfied that the inclusion of such a statement would not provide significant information for investors and the issuer's solvency and capital adequacy are subject to prudential supervision by another regulatory body. In view of the above, pursuant to Rule 8.21A(2) of the Hong Kong Listing Rules, we are not required to include a working capital statement from the directors in this prospectus.

## NO MATERIAL ADVERSE CHANGE

Up to the date of this prospectus, our Directors confirmed that there has been no material adverse impact on our loan portfolio and asset quality, financial results or business operations and loans recoverability as a result of the outbreak of COVID-19, taking into account of the amount involved under the Deferral Notices and its outstanding amount and overdue amount as at June 30, 2021. After performing sufficient due diligence work which our Directors consider appropriate and after due and careful consideration, our Directors confirm that, up to the date of this prospectus, save for the subsequent events as described in Note 43 to the Accountant's Report set forth in Appendix I to this prospectus and the recent developments as described in "Summary — Recent Developments", there has been no material adverse change in our financial or trading position since March 31, 2021, being the end date of the periods reported in the Accountant's Report in Appendix I to this prospectus, and there has been no event since March 31, 2021 that would materially affect the information as set out in the Accountant's Report in Appendix I to this prospectus.

## FUTURE PLANS

Please see "Business — Our Business Strategies" to this prospectus for detailed description of our future plans.

## USE OF PROCEEDS

Assuming an Offer Price of HK$7.92 (being the low end of the proposed Offer Price range), after deduction of underwriting commissions and estimated expenses payable by us in connection with the Global Offering, we estimate that the net proceeds of the Global Offering will be approximately HK$8,845.3 million (assuming the Over-allotment Option is not exercised) or approximately HK$10,181.9 million (assuming the Over-allotment Option is fully exercised).

Assuming an Offer Price of HK$8.32 (being the mid-point of the proposed Offer Price range), after deduction of underwriting commissions and estimated expenses payable by us in connection with the Global Offering, we estimated that net proceeds of the Global Offering will be approximately HK$9,295.4 million (assuming the Over-allotment Option is not exercised) or approximately HK$10,699.4 million (assuming the Over-allotment Option is fully exercised).

Assuming an Offer Price of HK$8.71 (being the high end of the proposed Offer Price range), after deduction of underwriting commissions and estimated expenses payable by us in connection with the Global Offering, we estimated that net proceeds of the Global Offering will be approximately HK$9,734.1 million (assuming the Over-allotment Option is not exercised) or approximately HK$11,204.0 million (assuming the Over-allotment Option is fully exercised).

We intend to use the net proceeds of the Global Offering (after deduction of underwriting commissions and estimated expenses payable by the Group in connection with the Global Offering) for strengthening our capital base to support the sustainable growth of our business. Net proceeds from the Global Offering can supplement our core tier-one capital and thereby enhance our capital adequacy indicators including core tier-one capital adequacy ratio, tier-one capital adequacy ratio and capital adequacy ratio. We will prudently plan the investment of the Global Offering proceeds and strengthen supervision to improve the efficiency of its use. We will further optimize our asset portfolios to prioritize our investments in loan placement, and properly allocate our investments in high-quality liquid assets such as treasury bonds and policy financial bonds.

## HONG KONG UNDERWRITERS

ABCI Securities Company Limited

China Merchants Securities (HK) Co., Limited

CMB International Capital Limited

ICBC International Securities Limited

Fortune (HK) Securities Limited

Haitong International Securities Company Limited

CCB International Capital Limited

AMTD Global Markets Limited

## UNDERWRITING ARRANGEMENTS

### Hong Kong Public Offering

***Hong Kong Underwriting Agreement***

The Hong Kong Underwriting Agreement was entered into on September 15, 2021. Pursuant to the Hong Kong Underwriting Agreement, we are offering 114,810,000 Hong Kong Offer Shares (subject to reallocation) for subscription by the public in Hong Kong on the terms and subject to the conditions in this prospectus and the Green Application Form at the Offer Price.

Subject to the Listing Committee granting approval for the listing of, and permission to deal in, our H Shares to be issued pursuant to the Global Offering (including any additional H Shares which may be issued pursuant to the exercise of the Over-allotment Option) as mentioned in this prospectus and certain other conditions set out in the Hong Kong Underwriting Agreement (including, amongst others, the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) and the Bank, agreeing upon the Offer Price), the Hong Kong Underwriters have agreed, severally but not jointly, to subscribe, or procure subscribers to subscribe, for the Hong Kong Offer Shares which are being offered but are not taken up under the Hong Kong Public Offering on the terms and subject to the conditions set out in this prospectus, the Green Application Form and the Hong Kong Underwriting Agreement.

The Hong Kong Underwriting Agreement is conditional on and subject to, amongst other things, the International Underwriting Agreement having been signed and becoming unconditional and not having been terminated in accordance with its terms.

*Grounds for Termination*

The Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) may, in their sole and absolute discretion and upon giving notice in writing to our Bank, terminate the Hong Kong Underwriting Agreement with immediate effect, if at any time prior to 8:00 a.m. on the Listing Date:

(1) there develops, occurs, exists or comes into force:

(a) any new law or regulation or any change or development involving a prospective change in existing law or regulation, or any change or development involving a prospective change in the interpretation or application thereof by any court or other competent authority in or affecting Hong Kong, the PRC, the United States, the United Kingdom, the European Union (or any member thereof) or Japan (each a "**Relevant Jurisdiction**"); or

(b) any change or development involving a prospective change or development, or any event or series of events likely to result in or representing a change or development, or prospective change or development, in local, national, regional or international financial, political, military, industrial, economic, currency market, fiscal or regulatory or market conditions or any monetary or trading settlement system (including, without limitation, conditions in stock and bond markets, money and foreign exchange markets and inter-bank markets, a change in the system under which the value of the Hong Kong currency is linked to that of the currency of the United States or a change of the Hong Kong dollars or of the Renminbi against any foreign currencies) in or affecting any Relevant Jurisdiction; or

(c) any event or series of events in the nature of force majeure (including, without limitation, acts of government, labor disputes, strikes, lock-outs, fire, explosion, earthquake, flooding, tsunami, civil commotion, riots, public disorder, acts of war, acts of terrorism (whether or not responsibility has been claimed), acts of God, accident or interruption in transportation, destruction of power plant, outbreak of diseases or epidemics including, but not limited to, SARS, swine or avian flu, H5N1, H1N1, H1N7, H7N9, Ebola virus, Middle East respiratory syndrome (MERS) and such related/mutated forms, economic sanction, in whatever form) in or directly or indirectly affecting any Relevant Jurisdiction; or

(d) any local, national, regional or international outbreak or escalation of hostilities (whether or not war is or has been declared) or other state of emergency or calamity or crisis in or affecting any Relevant Jurisdiction; or

(e) any moratorium, suspension or restriction (including, without limitation, any imposition of or requirement for any minimum or maximum price limit or price range) in or on trading in any securities of any other member of the Group listed or quoted on a stock exchange or an over-the-counter market; or

(f) any general moratorium on commercial banking activities in Hong Kong (imposed by the Financial Secretary or the Hong Kong Monetary Authority or other competent governmental authority), New York (imposed at Federal or New York State level or other competent governmental authority), London, the PRC, the European Union (or any member thereof), Japan or any Relevant Jurisdiction or any disruption in commercial banking or foreign exchange trading or securities settlement or clearance services, procedures or matters in any Relevant Jurisdiction; or

(g) any (A) change or prospective change in exchange controls, currency exchange rates or foreign investment regulations (including, without limitation, a change of the Hong Kong dollars or RMB against any foreign currencies, a change in the system under which the value of the Hong Kong dollars is linked to that of the United States dollars or RMB is linked to any foreign currency or currencies), or (B) any change or prospective change in taxation in any Relevant Jurisdiction adversely affecting an investment in the H Shares; or

(h) the issue or requirement to issue by our Bank of a supplemental or amendment to the prospectus, Green Application Forms, preliminary offering circular or offering circular or other documents in connection with the offer and sale of the H Shares pursuant to the Companies Ordinance or the Listing Rules or upon any requirement or request of the Hong Kong Stock Exchange or the SFC; or

(i) any change or development involving a prospective change which has the effect of materialization of any of the risks set out in the section headed “Risk Factors” in this prospectus; or

(j) any litigation or claim being threatened or instigated against any member of the Group, any Director or any Supervisor; or

(k) any contravention by any member of the Group, any Director or any Supervisor of the Companies Ordinance, the PRC Company Law or the Listing Rules; or

(l) a governmental authority or a regulatory body or organization in any Relevant Jurisdiction commencing any investigation or other action or proceedings, or announcing an intention to investigate or take other action or proceedings, against any member of the Group or any Director or any Supervisor; or

(m) any of the chairman, president, Director or Supervisor of our Bank vacating his office, or any litigation or claim being threatened or instigated against, or a governmental authority or a regulatory body or organization in any Relevant Jurisdiction commencing any investigation or other proceedings, or announcing an intention to investigate or take other proceedings against any of the chairman, president or the Director or the Supervisor of our Bank, or any of them being charged with an indictable offense or prohibited by operation of laws or otherwise disqualified from taking part in the management of a company or the commencement by any governmental, political, regulatory body of any action against any Director or Supervisor in his or her capacity as such or any announcement by any governmental, political, regulatory body that it intends to take any such action; or

(n) any material adverse change or prospective material adverse change in the earnings, results of operations, business, business prospects, financial or trading position, conditions (financial or otherwise) or prospects of any member of the Group (including any litigation or claim of any third party being threatened or instigated against any member of the Group); or

(o) any demand by creditors for repayment of indebtedness (other than indebtedness arising from the ordinary course of business of our Bank) prior to its stated maturity or a petition being presented for the winding-up or liquidation of any member of the Group, or any member of the Group making any composition or arrangement with its creditors or entering into a scheme of arrangement or any resolution being passed for the winding-up of any member of the Group or a provisional liquidator, receiver or manager being appointed over all or part of the assets or undertaking of any member of the Group or anything analogous thereto occurs in respect of any member of the Group; or

(p) a prohibition on our Bank for whatever reason from allotting, issuing or selling the H Shares (including the H Shares to be issued upon the exercise of the Over-allotment Option) pursuant to the terms of the Global Offering; or

(q) the imposition of economic sanctions, in whatever form, directly or indirectly, by, or for, any Relevant Jurisdiction on our Bank or any member of the Group; or

which, in any such case individually or in the aggregate, in the sole and absolute opinion of the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters: (A) is or will be or may be materially adverse to, or materially and prejudicially affects, the assets, liabilities, business, general affairs, management, shareholder's equity, profit, losses, results of operations, position or condition (financial or otherwise), or prospects of our Bank or the Group as a whole or to any present or prospective shareholder of our Bank in its capacity as such; or (B) has or will have or may have a material adverse effect on the success of the Global Offering or the level of Offer Shares being applied for or accepted or subscribed for or purchased or the distribution of Offer Shares and/or has made or is likely to make or may make it impracticable or inadvisable or incapable for any material part of the Hong Kong Underwriting Agreement, the Hong Kong Public Offering or the Global Offering to be performed or implemented as envisaged; or (C) makes or will make it or may make it impracticable or inadvisable or incapable to proceed with the Hong Kong Public Offering and/or the Global Offering or the delivery of the Offer Shares on the terms and in the manner contemplated by this prospectus, the Green Application Forms, the formal notice, the preliminary offering circular or the offering circular; or (D) would have or may have the effect of making a part of the Hong Kong Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or which prevents the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof; or

(2) there has come to the notice of the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, or any of the Hong Kong Underwriters:

(a) that any statement contained in the Hong Kong Public Offering documents and/or any notices, announcements, advertisements, communications issued or used by or on behalf of our Bank in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) was or has become untrue, incomplete, incorrect in any material respect or misleading or any forecasts, estimate, expressions of opinion, intention or expectation expressed in the Hong Kong Public Offering documents and/or any notices, announcements, advertisements, communications so issued or used are not fair and honest and made on reasonable grounds or, where appropriate, based on reasonable assumptions, when taken as a whole; or

(b) any contravention by any Group member or any Director or any Supervisor of any applicable law in any material respect; or

(c) non-compliance of this prospectus (or any other documents used in connection with the contemplated subscription and sale of the Offer Shares) or any aspect of the Global Offering with the Listing Rules or any other applicable law; or

(d) any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus, not having been disclosed in this prospectus, constitutes a material omission therefrom; or

(e) either (i) there has been a breach of any of the representations, warranties, undertakings or provisions of either the Hong Kong Underwriting Agreement or the International Underwriting Agreement by the Warrantor or (ii) any of the representations, warranties and undertakings given by the Warrantor in the Hong Kong Underwriting Agreement or the International Underwriting Agreement, as applicable, is (or would when repeated be) untrue, incorrect, incomplete or misleading; or

(f) any of the reporting accountant, or any of the counsel or advisor of our Bank or other experts has withdrawn its respective consent to the issue of this prospectus with the inclusion of its reports, letters, summaries of valuations and/or legal opinions (as the case may be) and references to its name included in the form and context in which it respectively appears; or

(g) any event, act or omission which gives or is likely to give rise to any material liability of our Bank pursuant to the indemnities given by our Bank under the Hong Kong Underwriting Agreement; or

(h) any litigation or dispute or potential litigation or dispute, which would materially affect the operation, financial condition, reputation or composition of the board of the Group; or

(i) any material breach of any of the obligations of our Bank under the Hong Kong Underwriting Agreement or the International Underwriting Agreement; or

(j) a material portion of the orders in the bookbuilding process, or the investment commitments by any cornerstone investors after signing of agreements with such cornerstone investors, have been withdrawn, terminated or canceled; or

(k) any cornerstone investor is unlikely to fulfill its obligation under the respective agreement;

(l) any person (other than the Joint Sponsors) has withdrawn or subject to withdraw its consent to being named in any of the Hong Kong Public Offering documents or to the issue of any of the Hong Kong Public Offering documents; or

(m) any material adverse change or prospective material adverse change or development involving a prospective material adverse change in the assets, business, general affairs, management, shareholder's equity, profits, losses, properties, results of operations, in the position or condition (financial or otherwise) or prospects of our Bank and its subsidiaries, as a whole; or

(n) approval by the CSRC, CBIRC and the Hong Kong Stock Exchange of the Listing of and permission to deal in, the H Shares (including the H Shares to be issued upon the exercise of the Over-allotment Option) under the Global Offering and/or admission is refused or not granted, on or before the Listing Date, or if granted, the admission is subsequently withdrawn, canceled, qualified (other than by customary conditions), revoked or withheld; or

(o) our Bank has withdrawn this prospectus (and/or any other documents issued or used in connection with the Global Offering) or the Global Offering.

*Undertakings by our Bank*

Pursuant to Rule 10.08 of the Listing Rules, we have undertaken to the Hong Kong Stock Exchange that we will not issue any further Shares or securities convertible into equity securities of our Bank (whether or not of a class already listed) or form the subject of any agreement to such issue within six months from date on which our H Shares first commence dealing on the Hong Kong Stock Exchange (whether or not such issue of H Shares or securities will be completed within six months from the commencement of dealing), except for:

(a) in certain circumstances prescribed by Rule 10.08 of the Listing Rules; or

(b) pursuant to the Global Offering.

Pursuant to the Hong Kong Underwriting Agreement, the Bank has undertaken to each of the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters that, except pursuant to the Global Offering (including pursuant to the Over-allotment Option), during the period commencing on the date of the Hong Kong Underwriting Agreement and ending on, and including, the date that is six months after the Listing Date (the "**First Six-Month Period**"), not to, without the prior written consent of the Joint Sponsors and the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules:

(i) allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, assign, mortgage, charge, pledge, assign, hypothecate, lend, grant or sell any option, warrant, contract or right to subscribe for or purchase, grant or purchase any option, warrant, contract or right to allot, issue or sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, or repurchase, any legal or beneficial interest in the share capital or any other securities of our Bank, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represents the right to receive, or any warrants or other rights to purchase any share capital or other securities of the Bank, as applicable), or deposit any share capital or other securities of the Bank, as applicable, with a depositary in connection with the issue of depositary receipts; or

(ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership (legal or beneficial) of the Shares or any other securities of the Bank or any shares or other securities of such other member of the Group, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or any shares of such other member of the Group, as applicable); or

(iii) enter into any transaction with the same economic effect as any transaction specified in (i) or (ii) above; or

(iv) offer to or agree to or announce any intention to effect any transaction specified in (i), (ii) or (iii) above,

in each case, whether any of the transactions specified above is to be settled by delivery of H Shares or such other securities of the Bank, or in cash or otherwise (whether or not the issue of such share capital or other securities will be completed within the First Six-Month Period). We further agree that, in the event the Bank is allowed to enter into any of the transactions specified in (i), (ii) or (iii) above or offer to or agree to or announce any intention to effect any such transaction during the period of six months commencing on the date on which the First Six-Month Period expires, we will take all reasonable steps to ensure that such an issue or disposal will not, and no other act of us will, create a disorderly or false market for any Shares or our other securities.

***Indemnity***

We have agreed to indemnify the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters for certain losses which they may suffer, including, among other matters, losses incurred arising from the performance of their obligations under the Hong Kong Underwriting Agreement and any breach by us of the Hong Kong Underwriting Agreement, as the case may be.

***Commission and Expenses and Joint Sponsors' Fee***

The Hong Kong Underwriters will receive an underwriting commission of 1.0% of the aggregate Offer Price payable for the Hong Kong Offer Shares offered under the Hong Kong Public Offering (excluding any Hong Kong Offer Shares reallocated to the International Offering) while the International Underwriters are expected to receive an underwriting commission of 1.0% of the aggregate Offer Price payable for the International Offer Shares offered under the International Offering. For unsubscribed Hong Kong Offer Shares reallocated to the International Offering and International Offer Shares reallocated to the Hong Kong Public Offering, if any, the Bank will pay an underwriting commission at the rate applicable to the International Offering as set out in the International Underwriting Agreement, and such commission will be paid to the Joint Global Coordinators (for themselves and on behalf of the International Underwriters), and no underwriting commission will be paid to the Hong Kong Underwriters for such reallocated Offer Shares. In addition, at the discretion of our Bank, the Underwriters may also receive an incentive fee of up to 1% of the aggregate Offer Price in respect of all Offer Shares.

Without taking into account any H Shares to be issued upon the exercise of the Over-allotment Option based on an Offer Price of HK$8.32 (being the mid-point of the indicative Offer Price range stated in this prospectus), the aggregate commissions and fees, together with the Hong Kong Stock Exchange listing fees, the Hong Kong Stock Exchange trading fee of 0.005% per Offer Share, SFC transaction levy of 0.0027% per Offer Share, legal and other professional fees and printing and other expenses relating to the Global Offering, payable by us, are estimated to be approximately HK$275.6 million, which is subject to adjustment to be agreed by the Bank, the Joint Global Coordinators and other parties.

An aggregate amount of RMB3 million is payable by the Bank as sponsor fees to the Joint Sponsors.

***Hong Kong Underwriters' Interests in Our Bank***

Save for the obligations under the Hong Kong Underwriting Agreement and as disclosed in this prospectus, none of the Hong Kong Underwriters has any shareholding or beneficial interests in our Bank or has any right or option (whether legally enforceable or not) to subscribe for or purchase or to nominate persons to subscribe for or purchase securities in our Bank.

Following the completion of the Global Offering, the Hong Kong Underwriters and their affiliated companies may hold a certain portion of the H Shares as a result of fulfilling their obligations under the Hong Kong Underwriting Agreement.

**The International Offering**

In connection with the International Offering, it is expected that we will enter into the International Underwriting Agreement with, among others, the Joint Global Coordinators. Under the International Underwriting Agreement, it is expected that the International Underwriters would, subject to certain conditions set out therein, severally but not jointly, agree to procure purchasers for, or to purchase, the International Offer Shares being offered pursuant to the International Offering or procure purchasers for their respective applicable proportions of International Offer Shares. For details, please see section "Structure of the Global Offering — The International Offering".

**Stabilization and Over-allotment Option**

Details of the arrangements relating to the stabilization and Over-allotment Option are set forth in "Structure of the Global Offering — The International Offering — Stabilization" and "Structure of the Global Offering — The International Offering — Over-allotment Option."

**RESTRICTIONS ON THE OFFER SHARES**

No action has been taken to permit a public offering of the Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, without limitation to the following, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorized or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and the offering and sales of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom. In particular, the Hong Kong Offer Shares have not been publicly offered or sold, directly or indirectly, in mainland China or the United States.

**ACTIVITIES BY SYNDICATE MEMBERS**

The underwriters of the Hong Kong Public Offering and the International Offering (together, the "**Syndicate Members**") and their affiliates may each individually undertake a variety of activities (as further described below) which do not form part of the underwriting.

The Syndicate Members and their affiliates are diversified financial institutions with relationships in countries around the world. These entities engage in a wide range of commercial and investment banking, brokerage, funds management, trading, hedging, investing and other activities for their own account and for the account of others. In the ordinary course of their various business activities, the Syndicate Members and their respective affiliates may purchase, sell or hold a broad array of investments and actively trade securities, derivatives, loans, commodities, currencies, credit default swaps and other financial instruments for their own account and for the accounts of their customers. Such investment and trading activities may involve or relate to assets, securities and/or instruments the Bank and/or persons and entities having relationships with the Bank and may also include swaps and other financial instruments entered into for hedging purposes in connection with the Bank's loans and other debt.

In relation to the H Shares, the activities of the Syndicate Members and their affiliates could include acting as agent for buyers and sellers of the H Shares, entering into transactions with those buyers and sellers in a principal capacity, including as a lender to initial purchasers of the H Shares (which financing may be secured by the H Shares) in the Global Offering, proprietary trading in the H Shares, and entering into over-the-counter or listed derivative transactions or listed and unlisted securities transactions (including issuing securities such as derivative warrants listed on a stock exchange) which have as their underlying assets, assets including the H Shares. Such transactions may be carried out as bilateral agreements or trades with selected counterparties. Those activities may require hedging activity by those entities involving, directly or indirectly, the buying and selling of the H Shares, which may have a negative impact on the trading price of the H Shares. All such activity could occur in Hong Kong and elsewhere in the world and may result in the Syndicate Members and their affiliates holding long and/or short positions in the H Shares, in baskets of securities or indices including the H Shares, in units of funds that may purchase the H Shares, or in derivatives related to any of the foregoing.

In relation to issues by Syndicate Members or their affiliates of any listed securities having the H Shares as their underlying securities, whether on the Hong Kong Stock Exchange or on any other stock exchange, the rules of the exchange may require the issuer of those securities (or one of its affiliates or agents) to act as a market maker or liquidity provider in the security, and this will also result in hedging activity in the H Shares in most cases.

Such activities may affect the market price or value of the H Shares, the liquidity or trading volume in the H Shares and the volatility of the price of the H Shares, and the extent to which this occurs from day to day cannot be estimated.

It should be noted that when engaging in any of these activities, the Syndicate Members will be subject to certain restrictions, including the following:

(a) the Syndicate Members must not, in connection with the distribution of the Offer Shares, effect any transactions (including issuing or entering into any option or other derivative transactions relating to the Offer Shares), whether in the open market or otherwise, with a view to stabilizing or maintaining the market price of any of the Offer Shares at levels other than those which might otherwise prevail in the open market; and

(b) the Syndicate Members must comply with all applicable laws and regulations, including the market misconduct provisions of the SFO, including the provisions prohibiting insider dealing, false trading, price rigging and stock market manipulation.

## THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering. The Global Offering comprises:

(a) the Hong Kong Public Offering of initially 114,810,000 Offer Shares (subject to reallocation) in Hong Kong as described below in the section "— The Hong Kong Public Offering"; and

(b) the International Offering of initially 1,033,281,000 Offer Shares (subject to reallocation and the Over-allotment Option) outside the United States only in reliance on Regulation S.

The Offer Shares will represent approximately 16.67% of the enlarged registered capital of the Bank immediately after the Global Offering (assuming no over-allotment option is exercised). If the Over-allotment Option is exercised in full, the Offer Shares will represent approximately 18.70% of the enlarged registered capital of the Bank immediately after the Global Offering and the exercise of the Over-allotment Option, details of which is set out in the paragraph "— Global Offering — Over-allotment Option" below.

Investors may apply for Hong Kong Offer Shares under the Hong Kong Public Offering or apply for or indicate an interest in International Offering Shares under the International Offering, but may not do both.

References in this prospectus to applications, the **Green** Application Form, application monies or the procedure for application relate solely to the Hong Kong Public Offering.

## THE HONG KONG PUBLIC OFFERING

### *Number of H Shares Initially Offered*

We are initially offering 114,810,000 Hong Kong Offer Shares, representing approximately 10% of the total number of Offer Shares initially available under the Global Offering, at the Offer Price for subscription by the public in Hong Kong. Subject to the reallocation of H Shares between (i) the International Offering, and (ii) the Hong Kong Public Offering, the Hong Kong Offer Shares will represent approximately 1.67% of our Bank's issued share capital immediately after completion of the Global Offering (assuming the Over-allotment Option is not exercised).

Professional investors generally include brokers, dealers, companies of which the daily operations involve the trading of shares, securities companies (including fund managers) and entities regularly invest in shares and other securities.

For conditions of completion of the Hong Kong Public Offering, please see section "— Conditions of the Hong Kong Public Offering".

### *Allocation*

Allocation of the Offer Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Offer Shares validly applied for by applicants. Such allocation could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

The total number of Hong Kong Offer Shares available under the Hong Kong Public Offering (after taking account of any reallocation referred to below) will be divided into two pools for allocation purposes:

Pool A: The Hong Kong Offer Shares in Pool A will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares with a total subscription price of HK$5 million or less (excluding the brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee payable).

Pool B: The Hong Kong Offer Shares in Pool B will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares with a total subscription price of more than HK$5 million and up to the total value of pool B (excluding the brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee payable).

For the purpose of this sub-section only, the "subscription price" for Hong Kong Offer Shares means the price payable on application (without regard to the Offer Price as finally determined).

Applicants should be aware that applications in Pool A and applications in Pool B may receive different allocation ratios. If Hong Kong Offer Shares in one (but not both) of the two pools are undersubscribed, the surplus Hong Kong Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly.

Applicants can only receive an allocation of Hong Kong Offer Shares from either Pool A or Pool B, but not from both pools. Multiple or suspected multiple applications and any application for more than 57,405,000 Hong Kong Offer Shares are liable to be rejected.

***Reallocation***

The allocation of Offer Shares between the Hong Kong Public Offering and the International Offering is subject to adjustment. Paragraph 4.2 of Practice Note 18 of the Listing Rules and the Hong Kong Stock Exchange Guidance Letter HKEx GL91-18 requires a clawback mechanism to be put in place, which would have the effect of increasing the number of Hong Kong Offer Shares to certain percentages of the total number of Offer Shares to be offered in the Global Offering if certain prescribed total demand levels in the Hong Kong Public Offering are reached as further described below:

(i) if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents less than 15 times the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then no Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering, so that the number of Offer Shares available under the Hong Kong Public Offering will be 114,810,000 Offer Shares, representing approximately 10% of the Offer Shares initially available under the Global Offering;

(ii) if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 15 times or more but less than 50 times the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering, so that the total number of the Offer Shares available under the Hong Kong Public Offering will be 344,428,000 Offer Shares, representing approximately 30% of the Offer Shares initially available under the Global Offering;

(iii) if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 50 times or more but less than 100 times the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering, so that the total number of the Offer Shares available under the Hong Kong Public Offering will be 459,237,000 Offer Shares, representing approximately 40% of the Offer Shares initially available under the Global Offering; and

(iv) if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 100 times or more than the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering, so that the total number of the Offer Shares available under the Hong Kong Public Offering will be 574,046,000 Offer Shares, representing 50% of the Offer Shares initially available under the Global Offering.

In each case, the additional Offer Shares reallocated to the Hong Kong Public Offering will be allocated between pool A and pool B and the number of Offer Shares allocated to the International Offering will be correspondingly reduced in such manner as the Joint Global Coordinators deems appropriate.

In addition, the Offer Shares to be offered in the Hong Kong Public Offering and the International Offering may, in certain circumstances, be reallocated as between these offerings at the discretion of the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and the Joint Sponsors. If the Hong Kong Public Offering is not fully subscribed for, the Joint Global Coordinators and the Joint Sponsors have the authority to reallocate all or any unsubscribed Hong Kong Offer Shares to the International Offering, in such proportions as the Joint Global Coordinators and the Joint Sponsors deem appropriate. In addition to the reallocation mentioned in the foregoing paragraph which may be required, the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and the Joint Sponsors may, at their discretion, reallocate Offer Shares initially allocated for the International Offering to the Hong Kong Public Offering to satisfy valid applications in Pool A and Pool B under the Hong Kong Public Offering, in the event that (i) the International Offer Shares are undersubscribed and the Hong Kong Offer Shares are fully subscribed or oversubscribed irrespective of the number of times; or (ii) the International Offer Shares are fully subscribed or oversubscribed and the Hong Kong Offer Shares are fully subscribed or oversubscribed as to less than 15 times of the number of Hong Kong Offer Shares initially available under the Hong Kong Public Offering, provided that (i) the Offer Price would be set at HK$7.92 (low-end of the indicative Office Price), and (ii) up to 114,810,000 Offer Shares may be reallocated to the Hong Kong Public Offering from the International Offering, so that the total number of the Offer Shares available under the Hong Kong Public Offer will be increased to 229,620,000 Offer Shares, representing 20% of the number of the Offer Shares initially available under the Global Offering (before any exercise of the Over-allotment Option).

*Applications*

Each applicant under the Hong Kong Public Offering will also be required to give an undertaking and confirmation in the application submitted by him/her/it that he/she/it and any person(s) for whose benefit he/she/it is making the application has not applied for or taken up, or indicated an interest in, and will not apply for or take up, or indicate an interest in, any International Offering Shares under the International Offering, and such applicant's application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be) or it has been or will be placed or allocated International Offering Shares under the International Offering.

Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum price of HK$8.71 per Offer Share in addition to the brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee payable on each Offer Share. If the Offer Price, as finally determined in the manner described in the section "— Pricing and Allocation" below, is less than the maximum price of HK$8.71 per Offer Share, appropriate refund payments (including the brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. For further details, please see section "How to Apply for Hong Kong Offer Shares".

**THE INTERNATIONAL OFFERING**

*Number of Offer Shares Offered*

Subject to the reallocation as described above, the number of Offer Shares to be initially offered under the International Offering will be 1,033,281,000, representing approximately 90% of the total number of Offer Shares initially available under the Global Offering, assuming the Over-allotment Option is not exercised.

*Allocation*

Pursuant to the International Offering, the International Offering Shares will be conditionally placed on behalf of our Bank by the International Purchasers or through selling agents appointed by them. International Offering Shares will be selectively placed with certain professional and institutional investors and other investors anticipated to have a sizeable demand for such Offer Shares in Hong Kong and other jurisdictions outside the United States only in offshore transactions in reliance on Regulation S. The International Offering is subject to the Hong Kong Public Offering being unconditional.

Allocation of Offer Shares pursuant to the International Offering will be effected in accordance with the "book-building" process described in the section "— Pricing and Allocation" below and based on a number of factors, including the level and timing of demand, total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further H Shares, and/or hold or sell, H Shares, after the listing of our H Shares on the Hong Kong Stock Exchange. Such allocation is intended to result in a distribution of the H Shares on a basis which would lead to the establishment of a solid shareholder base to the benefit of our Bank and our shareholders as a whole.

The Joint Global Coordinators (for themselves and on behalf of the Underwriters) may require any investor who has been offered Offer Shares under the International Offering and who has made an application under the Hong Kong Public Offering, to provide sufficient information to the Joint Global Coordinators (for themselves and on behalf of the Underwriters) so as to allow them to identify the relevant applications under the Hong Kong Public Offering and to ensure that they are excluded from any application of Offer Shares under the Hong Kong Public Offering.

***Reallocation***

The total number of Offer Shares to be issued pursuant to the International Offering may change as a result of the clawback arrangement described in the section "— The Hong Kong Public Offering — Reallocation" above, the exercise of the Over-allotment Option in whole or in part described in the section "— Over-allotment Option," and any reallocation of unsubscribed Offer Shares originally included in the Hong Kong Public Offering and/or any Offer Shares from the International Offering to the Hong Kong Public Offering at the discretion of the Joint Global Coordinators.

## OVER-ALLOTMENT OPTION

In connection with the Global Offering, it is expected that the Bank will grant the Over-allotment Option to the International Underwriters, which will be exercisable by the Joint Global Coordinators (on behalf of the International Underwriters) in whole or in part at their sole and absolute discretion within 30 days after the last day for lodging applications under the Hong Kong Public Offering.

Pursuant to the Over-allotment Option, the International Underwriters have the right, exercisable by the Joint Global Coordinators (on behalf of the International Underwriters), to require the Bank to issue and allot up to 172,213,000 additional Offer Shares, representing approximately 15% of the total number of Offer Shares initially available under the Global Offering, at the Offer Price under the International Offering, to, among other things, cover over-allocations in the International Offering, if any. In the event that the Over-allotment Option is exercised, a public announcement will be made.

## STABILIZATION

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilize, the underwriters may bid for, or purchase, the securities in the secondary market, during a specified period of time, to curb and, if possible, prevent any decline in the market price of the securities below the offer price. It may be effected in jurisdictions where it is permissible to do so and subject to all applicable laws and regulatory requirements. In Hong Kong, the price at which stabilization is effected is not permitted to exceed the Offer Price.

In connection with the Global Offering, the Stabilizing Manager or its affiliates or any person acting for it, on behalf of the Underwriters, may over-allocate or effect short sales or any other stabilizing transactions with a view to stabilizing or maintaining the market price of the Offer Shares at a level higher than that which might otherwise prevail in the open market. Short sales involve the sale by the Stabilizing Manager of a greater number of H Shares than the Underwriters are required to purchase in the Global Offering. "Covered" short sales are sales made in an amount not greater than the Over-allotment Option. The Stabilizing Manager may close out the covered short position by either exercising the Over-allotment Option to purchase additional Offer Shares or purchasing H Shares in the open market. In determining the source of the Offer Shares to close out the covered short position, the Stabilizing Manager will consider, among other things, the price of Offer Shares in the open market as compared to the price at which they may purchase additional Offer Shares pursuant to the Over-allotment Option. Stabilizing transactions consist of certain bids or purchases made for the purpose of preventing or curbing a decline in the market price of the Offer Shares while the Global Offering is in progress. However, there is no obligation on the Stabilizing Manager or its affiliates or any person acting for it to conduct any such stabilizing action. Such stabilizing activity, if commenced, will be done at the absolute discretion of the Stabilizing Manager and may be discontinued at any time.

Any such stabilizing activity is required to be brought to an end within 30 days of the last day for the lodging of applications under the Hong Kong Public Offering. The number of the Offer Shares that may be over-allocated will not exceed the number of the H Shares that may be issued under the Over-allotment Option, namely, 172,213,000 Offer Shares, which is 15% of the number of Offer Shares initially available under the Global Offering, and cover such over-allocations by exercising the Over-allotment Option or by making purchases in the secondary market at prices that do not exceed the Offer Price or a combination of these means.

In Hong Kong, stabilizing activities must be carried out in accordance with the Securities and Futures (Price Stabilizing) Rules (Chapter 571W of the Laws of Hong Kong). Stabilizing actions permitted pursuant to the Securities and Futures (Price Stabilizing) Rules include:

(a) over-allocating for the purpose of preventing or minimizing any reduction in the market price of our H Shares;

(b) selling or agreeing to sell the H Shares so as to establish a short position in them for the purpose of preventing or minimizing any reduction in the market price of the H Shares;

(c) purchasing or subscribing for, or agreeing to purchase or subscribe for, our H Shares pursuant to the Over-allotment Option in order to close out any position established under (a) or (b) above;

(d) purchasing, or agreeing to purchase, any of the H Shares for the sole purpose of preventing or minimizing any reduction in the market price;

(e) selling or agreeing to sell any of our H Shares in order to liquidate any position established as a result of those purchases; and

(f) offering or attempting to do anything as described in (b), (c), (d) or (e) above.

Stabilizing actions by the Stabilizing Manager, or its affiliates or any person acting for it, will be entered into in accordance with the laws, rules and regulations in place in Hong Kong on stabilization.

As a result of effecting transactions to stabilize or maintain the market price of the H Shares, the Stabilizing Manager, or its affiliates or any person acting for it, may maintain a long position in the H Shares. The size of the long position, and the period for which the Stabilizing Manager, or its affiliates or any person acting for it, will maintain the long position is at the discretion of the Stabilizing Manager and is uncertain. In the event that the Stabilizing Manager liquidates this long position by making sales in the open market, this may lead to a decline in the market price of the H Shares.

Stabilizing action by the Stabilizing Manager, or its affiliates or any person acting for it, is not permitted to support the price of the H Shares for longer than the stabilizing period, which begins on the day on which trading of the H Shares commences on the Hong Kong Stock Exchange and ends on the 30th day after the last day for the lodging of applications under the Hong Kong Public Offering. The stabilizing period is expected to end on October 21, 2021. As a result, demand for the H Shares, and their market price, may fall after the end of the stabilizing period. These activities by the Stabilizing Manager may stabilize, maintain or otherwise affect the market price of the H Shares. As a result, the price of the H Shares may be higher than the price that otherwise may exist in the open market. Any stabilizing action taken by the Stabilizing Manager, or any person acting for it, may not necessarily result in the market price of the H Shares staying at or above the Offer Price either during or after the stabilizing period. Bids for or market purchases of the H Shares by the Stabilizing Manager, or any person acting for it, may be made at a price at or below the Offer Price and therefore at or below the price paid for the H Shares by purchasers. A public announcement in compliance with the Securities and Futures (Price Stabilizing) Rules will be made within seven days of the expiration of the stabilizing period.

## PRICING AND ALLOCATION

### *Determining the Offer Price*

The International Underwriters will be soliciting from prospective investors' indications of interest in acquiring Offer Shares in the International Offering. Prospective professional and institutional investors will be required to specify the number of Offer Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price. This process, known as "book-building," is expected to continue up to, and to cease on or around, the last day for lodging applications under the Hong Kong Public Offering.

Pricing for the Offer Shares for the purpose of the various offerings under the Global Offering will be agreed on the Price Determination Date, which is expected to be on or about Wednesday, September 22, 2021 and in any event no later than Friday, September 24, 2021, by agreement between the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and our Bank and the number of Offer Shares to be allocated under the various offerings will be determined shortly thereafter.

### *Offer Price Range*

The Offer Price per Offer Share under the Hong Kong Public Offering will be identical to the Offer Price per Offer Share under the International Offering based on the Hong Kong dollar price per Offer Share, as determined by the Joint Global Coordinators (for themselves and on behalf of the Underwriters).

The Offer Price will not be more than HK$8.71 per Offer Share and is expected to be not less than HK$7.92 per Offer Share, unless otherwise announced by the Bank no later than the morning of the last day for lodging applications under the Hong Kong Public Offering, as further explained below. **Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative offer price range stated in this prospectus.**

### *Price Payable on Application*

Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum Offer Price of HK$8.71 per Hong Kong Offer Share (plus 1% brokerage, 0.0027% SFC transaction levy and 0.005%

Hong Kong Stock Exchange trading fee). If the Offer Price is less than HK$8.71, appropriate refund payments (including the brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee attributable to the surplus application monies, without any interest) will be made to successful applicants.

If, for any reason, our Bank and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) are unable to reach agreement on the Offer Price on or before Friday, September 24, 2021, the Global Offering will not proceed and will lapse.

***Reduction in Indicative Offer Price Range and/or Number of Offer Shares***

The Joint Global Coordinators (for themselves and on behalf of the Underwriters) may, where considered appropriate, based on the level of interest expressed by prospective professional and institutional investors during the book-building process, and with the consent of our Bank, reduce the number of Offer Shares and/or the indicative offer price range as stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such case, we will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offering, cause to be published on the website of the Hong Kong Stock Exchange at **www.hkexnews.hk** and the Bank at **www.drcbank.com**, notices of the reduction. As soon as practicable of such reduction of the number of Offer Shares and/or the indicative Offer Price range, our Bank will also issue a supplemental prospectus updating investors of such reduction together with an update of all financial and other information in connection with such change and, where appropriate, extend the period under which the Hong Kong Public Offering was open for acceptance, and give potential investors who had applied for the Offer Shares the right to withdraw their applications. Upon issue of such a notice, the revised number of Offer Shares and/or indicative Offer Price range will be final and conclusive and the Offer Price, if agreed upon by the Joint Global Coordinators, for themselves and on behalf of the Underwriters, and our Bank, will be fixed within such a revised Offer Price range.

Before submitting applications for the Hong Kong Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares and/or the indicative Offer Price range may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offering. In the absence of any such notice so published, the number of Offer Shares will not be reduced and/or the Offer Price, if agreed upon by the Joint Global Coordinators, for themselves and on behalf of the Underwriters, and our Bank, will under no circumstances be set outside the offer price range as stated in this prospectus. However, if the number of Offer Shares and/or the Offer Price range is reduced, applicants under the Hong Kong Public Offering will be entitled to withdraw their applications unless positive confirmations from the applicants to proceed are received.

In the event of a reduction in the number of Offer Shares, the Joint Global Coordinators (for themselves and on behalf of the Underwriters) may, at their discretion, reallocate the number of Offer Shares to be offered in the Hong Kong Public Offering and the International Offering, provided that the number of Offer Shares comprised in the Hong Kong Public Offering shall not be less than 10% of the total number of Offer Shares available under the Global Offering. The Offer Shares to be offered in the Hong Kong Public Offering and the Offer Shares to be offered in the International Offering may, in certain circumstances, be reallocated between these offerings at the discretion of the Joint Global Coordinators (for themselves and on behalf of the Underwriters).

***Announcement of Offer Price and Basis of Allocations***

The final Offer Price, the level of indications of interest in the Global Offering, the results of allocations and the basis of allotment of the Hong Kong Offer Shares are expected to be announced on Tuesday, September 28, 2021, on the website of the Hong Kong Stock Exchange at **www.hkexnews.hk** and on the website of our Bank at **www.drcbank.com**.

**UNDERWRITING**

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement and is subject to our Bank and the Joint Global Coordinators, for themselves and on behalf of the Underwriters, agreeing on the Offer Price.

We expect to enter into the International Underwriting Agreement relating to the International Offering on the Price Determination Date.

For these underwriting arrangements, and the Hong Kong Underwriting Agreement and the International Underwriting Agreement, please see section “Underwriting”.

**CONDITIONS OF THE HONG KONG PUBLIC OFFERING**

Acceptance of all applications for Offer Shares will be conditional on:

(a) the Listing Committee of the Hong Kong Stock Exchange granting approval for the listing of, and permission to deal in, the Offer Shares to be issued pursuant to the Global Offering (including the additional Offer Shares which may be issued pursuant to the exercise of the Over-allotment Option), and such listing and permission not subsequently having been revoked prior to the commencement of dealings in the Offer Shares on the Hong Kong Stock Exchange;

(b) the Offer Price having been duly agreed between our Bank and the Joint Global Coordinators (for themselves and on behalf of the Underwriters);

(c) the execution and delivery of the International Underwriting Agreement on or about the Price Determination Date; and

(d) the obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement and the obligations of the International Underwriters under the International Underwriting Agreement becoming and remaining unconditional and not having been terminated in accordance with the terms of the respective agreements in each case on or before the dates and times specified in the Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times).

If, for any reason, the Offer Price is not agreed between our Bank and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) on or before Friday, September 24, 2021, the Global Offering will not proceed and will lapse immediately.

The consummation of each of the Hong Kong Public Offering and the International Offering is conditional upon, among other things, the other offering becoming unconditional and not having been terminated in accordance with their respective terms.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and the Hong Kong Stock Exchange will be notified immediately. Notice of the lapse of the Hong Kong Public Offering will be published by our Bank on the websites of the Hong Kong Stock Exchange at **www.hkexnews.hk** and our Bank at **www.drcbank.com** on the next Business Day following such lapse. In such eventuality, all application monies will be returned, without interest, on the terms set out in the section "How to Apply for Hong Kong Offer Shares — G. Despatch/Collection of H Share Certificates and Refund Monies". In the meantime, all application monies will be held in separate bank account(s) with the receiving bankers or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

Share certificates for the Offer Shares will only become valid certificates of title at 8:00 a.m. on the Listing Date provided that (i) the Global Offering has become unconditional in all respects, and (ii) the right of termination as described in the section "Underwriting — Underwriting Arrangements — Hong Kong Public Offering — Grounds for Termination" has not been exercised.

## APPLICATION FOR LISTING ON THE HONG KONG STOCK EXCHANGE

We have applied to the Listing Committee of the Hong Kong Stock Exchange for the listing of, and permission to deal in, the Offer Shares to be issued by us pursuant to the Global Offering (including the additional Offer Shares which may be issued pursuant to the exercise of the Over-allotment Option).

No part of the Bank's share or loan capital is listed on or dealt in on any other stock exchange and no such listing or permission to deal is being or proposed to be sought in the near future.

## H SHARES WILL BE ELIGIBLE FOR CCASS

All necessary arrangements have been made enabling the H Shares to be admitted into the Central Clearing and Settlement System, or CCASS, established and operated by the Hong Kong Securities Clearing Company Limited, or HKSCC.

If the Hong Kong Stock Exchange grants the listing of, and permission to deal in, the H Shares and our Bank complies with the stock admission requirements of HKSCC, the H Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the H Shares on the Hong Kong Stock Exchange or any other date HKSCC chooses. Settlement of transactions between participants of the Hong Kong Stock Exchange is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

**DEALING ARRANGEMENTS**

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Wednesday, September 29, 2021, it is expected that dealings in the H Shares on the Hong Kong Stock Exchange will commence at 9:00 a.m. on Wednesday, September 29, 2021. The H Shares will be traded in board lots of 1,000 H Shares.

**IMPORTANT NOTICE TO INVESTORS:**
**FULLY ELECTRONIC APPLICATION PROCESS**

**We have adopted a fully electronic application process for the Hong Kong Public Offering. We will not provide any printed copies of this document or printed copies of any application forms to the public in relation to the Hong Kong Public Offering.**

**This document is available at the website of the Hong Kong Stock Exchange at www.hkexnews.hk under the "HKEXnews > New Listings > New Listing Information" section, and our website at www.drcbank.com. If you require a printed copy of this document, you may download and print from the website addresses above.**

The contents of the electronic version of the document are identical to the printed document as registered with the Registrar of Companies in Hong Kong pursuant to Section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

Set out below are procedures through which you can apply for the Hong Kong Offer Shares electronically. We will not provide any physical channels to accept any application for the Hong Kong Offer Shares by the public.

If you are an **intermediary**, **broker** or **agent**, please remind your customers, clients or principals, as applicable, that this document is available online at the website addresses above.

## A. APPLICATIONS FOR HONG KONG OFFER SHARES

### 1. How To Apply

We will not provide any printed application forms for use by the public.

If you apply for Hong Kong Offer Shares, then you may not apply for or indicate an interest for International Offer Shares.

To apply for Hong Kong Offer Shares, you may:

(1) apply online through the **White Form eIPO** service at **www.eipo.com.hk**; or

(2) apply through **CCASS EIPO** service to electronically cause HKSCC Nominees to apply on your behalf, including by:

(i) instructing your **broker** or **custodian** who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf; or

(ii) (if you are an existing **CCASS Investor Participant**) giving **electronic application instructions** through the CCASS Internet System (**https://ip.ccass.com**) or through the CCASS Phone System by calling +852 2979 7888 (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). HKSCC can also input **electronic application instructions** for CCASS Investor Participants through HKSCC's Customer Service Center at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong by completing an input request.

If you apply through channel (1) above, the Hong Kong Offer Shares successfully applied for will be issued in your own name.

If you apply through channels (2)(i) or (2)(ii) above, the Hong Kong Offer Shares successfully applied for will be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

The Bank, the Joint Global Coordinators, the **White Form eIPO** Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

2. **Who Can Apply**

You can apply for Hong Kong Offer Shares if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States (within the meaning of Regulation S), and are a person described in paragraph (h)(3) of Rule 902 of Regulation S;
- are not an existing Shareholder and/or his/her/its close associate;
- are not a core connected person of the Bank and will not become a core connected person of the Bank immediately upon completion of the Global Offering; and
- have not been allocated and have not applied for or indicated interest in any Offer Share under the International Offering.

If you apply for Hong Kong Offer Shares online through the **White Form eIPO** service, in addition to the above, you must also:

- have a valid Hong Kong identity card number; and
- provide a valid e-mail address and a contact telephone number.

If an application is made by a person under a power of attorney, the Bank and the Joint Global Coordinators, as the Bank's agent, may accept it at their discretion and on any conditions they think fit, including evidence of the attorney's authority.

The number of joint applicants may not exceed four and they may not apply by means of the **White Form eIPO** service for the Hong Kong Offer Shares.

If you are applying for the Hong Kong Offer Shares online by instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals, please contact them for the items required for the application.

Unless permitted by the Listing Rules, you cannot apply for any Hong Kong Offer Shares if:

- you are an existing beneficial owner of the Shares in the Bank and/or any of its subsidiaries;
- you are a Director, Supervisor or chief executive of the Bank and/or any of the Bank's subsidiaries;
- you are a connected person of the Bank or will become a connected person of the Bank immediately upon completion of the Global Offering;
- you are an associate of any of the above persons; or
- you have been allocated or have applied for or indicated an interest in any International Offer Shares or otherwise participated in the International Offering.

## 3. Applying For Hong Kong Offer Shares

### Which Application Channel to Use

For Hong Kong Offer Shares to be issued in your own name, apply online through the **White Form eIPO** service on the designated website at **www.eipo.hk**.

For Hong Kong Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

### Minimum Application Amount and Permitted Numbers

You may apply through the **White Form eIPO** service or give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** for a minimum of 1,000 Hong Kong Offer Shares. Instructions for more than 1,000 Hong Kong Offer Shares must be in one of the numbers set out in the table. You are required to pay the amount next to the number you select. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

**Dongguan Rural Commercial Bank Co., Ltd. 東莞農村商業銀行股份有限公司**

**(HK$8.71 per Hong Kong Offer Share)**

**NUMBER OF HONG KONG OFFER SHARES THAT MAY BE APPLIED FOR AND PAYMENTS**

| No. of Hong Kong Offer Shares applied for | Amount payable on application | No. of Hong Kong Offer Shares applied for | Amount payable on application | No. of Hong Kong Offer Shares applied for | Amount payable on application | No. of Hong Kong Offer Shares applied for | Amount payable on application |
|---|---|---|---|---|---|---|---|
| | HK$ | | HK$ | | HK$ | | HK$ |
| 1,000 | 8,797.78 | 25,000 | 219,944.27 | 200,000 | 1,759,554.13 | 2,000,000 | 17,595,541.34 |
| 2,000 | 17,595.54 | 30,000 | 263,933.13 | 250,000 | 2,199,442.67 | 3,000,000 | 26,393,312.01 |
| 3,000 | 26,393.32 | 35,000 | 307,921.97 | 300,000 | 2,639,331.20 | 4,000,000 | 35,191,082.68 |
| 4,000 | 35,191.08 | 40,000 | 351,910.83 | 350,000 | 3,079,219.74 | 5,000,000 | 43,988,853.35 |
| 5,000 | 43,988.86 | 45,000 | 395,899.68 | 400,000 | 3,519,108.27 | 15,000,000 | 131,966,560.05 |
| 6,000 | 52,786.62 | 50,000 | 439,888.54 | 450,000 | 3,958,996.81 | 25,000,000 | 219,944,266.75 |
| 7,000 | 61,584.40 | 60,000 | 527,866.24 | 500,000 | 4,398,885.34 | 35,000,000 | 307,921,973.45 |
| 8,000 | 70,382.16 | 70,000 | 615,843.95 | 600,000 | 5,278,662.40 | 45,000,000 | 395,899,680.15 |
| 9,000 | 79,179.94 | 80,000 | 703,821.65 | 700,000 | 6,158,439.47 | 57,405,000(1) | 505,036,025.31 |
| 10,000 | 87,977.71 | 90,000 | 791,799.37 | 800,000 | 7,038,216.54 | | |
| 15,000 | 131,966.56 | 100,000 | 879,777.07 | 900,000 | 7,917,993.60 | | |
| 20,000 | 175,955.41 | 150,000 | 1,319,665.61 | 1,000,000 | 8,797,770.67 | | |

(1) Maximum number of Hong Kong Offer Shares you may apply for.

4. **Terms And Conditions Of An Application**

By applying through the application channels specified in this document, among other things, you:

(i) undertake to execute all relevant documents and instruct and authorize the Bank and/or the Joint Global Coordinators (or their agents or nominees), as agents of the Bank, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;

(ii) agree to comply with the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles of Association;

(iii) confirm that you have read the terms and conditions and application procedures set out in this document, on the designated website under the **White Form eIPO** service, and agree to be bound by them;

(iv) confirm that you have received and read this document and have relied only on the information and representations contained in this document in making your application and will not rely on any other information or representations except those in any supplement to this document;

(v) confirm that you are aware of the restrictions on the Global Offering set out in this document;

(vi) agree that none of the Bank, the Joint Sponsors, the Joint Global Coordinators, the Underwriters, any of them or the Bank's respective directors, officers, employees, partners, agents, advisors and any other parties involved in the Global Offering (the "**Relevant Persons**") and the **White Form eIPO** Service Provider is or will be liable for any information and representations not in this document (and any supplement to it);

(vii) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any International Offer Shares nor participated in the International Offering;

(viii) agree to disclose to the Bank, the H Share Registrar, the receiving banks and the Relevant Persons any personal data which they may require about you and the person(s) for whose benefit you have made the application;

(ix) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of the Bank nor the Relevant Persons will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this document or on the designated website under the **White Form eIPO** service;

(x) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;

(xi) agree that your application will be governed by the laws of Hong Kong;

(xii) represent, warrant and undertake that (i) you understand that the Hong Kong Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Hong Kong Offer Shares are outside the United States and are not a U.S. person (as defined in Regulation S);

(xiii) warrant that the information you have provided is true and accurate;

(xiv) agree to accept the Hong Kong Offer Shares applied for or any lesser number allocated to you under the application;

(xv) authorize the Bank to place your name(s) or the name of HKSCC Nominees on the Bank's register of members as the holder(s) of any Hong Kong Offer Shares allocated to you, and the Bank and/or its agents to send any H Share certificate(s) and/or any e-Refund payment instruction and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you are eligible to collect the H Share certificate(s) and/or refund cheque(s) in person;

(xvi) understand that the Bank and the Joint Global Coordinators will rely on your declarations and representations in deciding whether or not to allocate any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;

(xvii) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit by giving **electronic application instructions** to HKSCC or through the **White Form eIPO** service by you or by any one as your agent or by any other person; and

(xviii) (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person by giving **electronic application instructions** to HKSCC; and (ii) you have due authority to give **electronic application instructions** on behalf of that other person as their agent.

5. **Applying Through The White Form eIPO Service**

**General**

Individuals who meet the criteria in the paragraph headed "— *2. Who Can Apply*" in this section, may apply through the **White Form eIPO** service for the Offer Shares to be allotted and registered in their own names through the designated website at **www.eipo.com.hk**.

Detailed instructions for application through the **White Form eIPO** service are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to the Bank. If you apply through the designated website, you authorize the **White Form eIPO** Service Provider to apply on the terms and conditions in this document, as supplemented and amended by the terms and conditions of the **White Form eIPO** service.

**Time for Submitting Applications under the White Form eIPO Service**

You may submit your application through the **White Form eIPO** service at **www.eipo.com.hk** (24 hours daily, except on the last day for applications) from 9:00a.m. on Thursday, September 16, 2021 until 11:30 a.m. on Tuesday, September 21, 2021 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Tuesday, September 21, 2021 the last day for applications, or such later time under the paragraph headed "— *C. Effect of bad weather and/or Extreme Conditions on the opening and closing of the application lists*" in this section.

**No Multiple Applications**

If you apply by means of the **White Form eIPO** service, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit through the **White Form eIPO** service to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under the **White Form eIPO** service more than once and obtaining different payment reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **White Form eIPO** service or by any other means, all of your applications are liable to be rejected.

**Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance**

For the avoidance of doubt, the Bank and all other parties involved in the preparation of this document acknowledge that each applicant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

**Commitment to sustainability**

The obvious advantage of **White Form eIPO** service is to save the use of paper via the self-serviced and electronic application process. Computershare Hong Kong Investor Services Limited, being the designated **White Form eIPO** Service Provider, will contribute HK$2 for each "**Dongguan Rural Commercial Bank Co., Ltd.**" **White Form eIPO** application submitted via **www.eipo.com.hk** to support sustainability.

## 6. Applying By Giving Electronic Application Instructions To HKSCC Via CCASS

**General**

CCASS Participants may give **electronic application instructions** to apply for the Hong Kong Offer Shares and to arrange payment of the monies due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a **CCASS Investor Participant**, you may give these **electronic application instructions** through the CCASS Phone System by calling +852 2979 7888 or through the CCASS Internet System (**https://ip.ccass.com**) (using the procedures in HKSCC's "*An Operating Guide for Investor Participants*" in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

**Hong Kong Securities Clearing Company Limited**
Customer Service Center
1/F, One & Two Exchange Square
8 Connaught Place, Central
Hong Kong

and complete an input request form.

If you are not a **CCASS Investor Participant**, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

You will be deemed to have authorized HKSCC and/or HKSCC Nominees to transfer the details of your application to the Bank, the Joint Global Coordinators and our H Share Registrar.

**Giving Electronic Application Instructions to HKSCC via CCASS**

Where you have given **electronic application instructions** to apply for the Hong Kong Offer Shares and an application is made by HKSCC Nominees on your behalf:

(i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of this document;

(ii) HKSCC Nominees will do the following things on your behalf:

- agree that the Hong Kong Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;
- agree to accept the Hong Kong Offer Shares applied for or any lesser number allocated;
- undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering;
- (if the **electronic application instruction** are given for your benefit) declare that only one set of **electronic application instructions** has been given for your benefit;
- (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorized to give those instructions as their agent;
- confirm that you understand that the Bank, the Directors and the Joint Global Coordinators will rely on your declarations and representations in deciding whether or not to allocate any of the Hong Kong Offer Shares to you and that you may be prosecuted if you make a false declaration;
- authorize the Bank to place HKSCC Nominees name on the Bank's register of members as the holder of the Hong Kong Offer Shares allocated to you and to send H Share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;
- confirm that you have read the terms and conditions and application procedures set out in this document and agree to be bound by them;
- confirm that you have received and read a copy of this document and have relied only on the information and representations in this document in causing the application to be made, save as set out in any supplement to this document;
- agree that none of the Bank or the Relevant Persons is or will be liable for any information and representations not contained in this document (and any supplement to it);
- agree to disclose to the Bank, the H Share Registrar, the receiving bank and the Relevant Persons any personal data which they may require about you;
- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees application has been accepted, it cannot be rescinded for innocent misrepresentation;
- agree that any application made by HKSCC Nominees on your behalf is irrevocable on or before the fifth day after the time of the opening of the application lists (excluding any day which is a Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral

contract with the Bank, and to become binding when you give the instructions and such collateral contract to be in consideration of the Bank agreeing that it will not offer any Hong Kong Offer Shares to any person on or before the fifth day after the time of the opening of the application lists (excluding any day which is a Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this document. However, HKSCC Nominees may revoke the application on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this document under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this document;

- agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by the Bank's announcement of the results of the Hong Kong Public Offering;

- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for giving **electronic application instructions** to apply for Hong Kong Offer Shares;

- agree with the Bank, for itself and for the benefit of each Shareholder (and so that the Bank will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies Ordinance, the Special Regulations, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles of Association;

- agree with the Bank, for itself and for the benefit of each Shareholder of the Bank and each director, supervisor, manager and other senior officer of the Bank (and so that the Bank will be deemed by its acceptance in whole or in part of this application to have agreed, for itself and on behalf of each of the Shareholder and each director, supervisor, manager and other senior officer of the Bank, with each CCASS Participant giving electronic application instructions):

  (a) to refer all differences and claims arising from the Articles of Association or any rights or obligations conferred or imposed by the PRC Company Law or other relevant laws and administrative regulations concerning the affairs of the Bank to arbitration in accordance with the Articles of Association of the Bank;

  (b) that any award made in such arbitration shall be final and conclusive; and

  (c) that the arbitration tribunal may conduct hearings in open sessions and publish its award;

- agree with the Bank (for the Bank itself and for the benefit of each shareholder of the Bank) that the H Shares are freely transferable by their holders; and

- agree that your application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the laws of Hong Kong.

**Effect of Giving Electronic Application Instructions to HKSCC via CCASS**

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to the Bank or any other person in respect of the things mentioned below:

- instructed and authorized HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;

- instructed and authorized HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee) by crediting your designated bank account; and

- instructed and authorized HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in this document.

**Time for Inputting Electronic Application Instructions[1]**

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

Thursday, September 16, 2021 — 9:00 a.m. to 8:30 p.m.

Friday, September 17, 2021 — 8:00 a.m. to 8:30 p.m.

Monday, September 20, 2021 — 8:00 a.m. to 8:30 p.m.

Tuesday, September 21, 2021 — 8:00 a.m. to 12:00 noon

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Thursday, September 16, 2021 until 12:00 noon on Tuesday, September 21, 2021 (24 hours daily, except on the last day for applications).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Tuesday, September 21, 2021, the last day for applications or such later time as described in the paragraph headed "— *C. Effect of bad weather and/or Extreme Conditions on the opening and closing of the application lists*" in this section.

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1 These times in this sub-section are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants and/or CCASS Investor Participants.

If you are instructing your **broker** or **custodian** who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf, you are advised to contact your **broker** or **custodian** for the latest time for giving such instructions which may be different from the latest time as stated above.

**No Multiple Applications**

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

With regard to the announcement of results of allocations under the section headed "D. Publication of results", the list of identification document number(s) may not be complete list of successful applicants, only successful applicants whose identification document numbers are provided to HKSCC by CCASS Participants are disclosed. Applicants who applied for the Offer Shares through their brokers can consult their brokers to enquire about their application results.

Since applications are subject to personal information collection statements, beneficial owner identification codes displayed are redacted. Applicants with beneficial names only but not identification document numbers are not disclosed due to personal privacy issue.

**Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance**

For the avoidance of doubt, the Bank and all other parties involved in the preparation of this document acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 42E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

**Personal Data**

The following Personal Information Collection Statement applies to any personal data held by the Bank, the H Share Registrar, the receiving banks and the Relevant Persons about you in the same way as it applies to personal data about applicants other than HKSCC Nominees. By giving **electronic application instructions** to HKSCC, you agree to all of the terms of the Personal Information Collection Statement below.

**Personal Information Collection Statement**

This Personal Information Collection Statement informs the applicant for, and holder of, Hong Kong Offer Shares, of the policies and practices of the Bank and the H Share Registrar in relation to personal data and the Personal Data (Privacy) Ordinance (Chapter 486 of the Laws of Hong Kong).

**Reasons for the collection of your personal data**

It is necessary for applicants and registered holders of the Hong Kong Offer Shares to supply correct personal data to the Bank or its agents and the H Share Registrar when applying for the Hong Kong Offer Shares or transferring the Hong Kong Offer Shares into or out of their names or in procuring the services of the H Share Registrar.

Failure to supply the requested data may result in your application for the Hong Kong Offer Shares being rejected, or in delay or the inability of the Bank or the H Share Registrar to effect transfers or otherwise render their services. It may also prevent or delay registration or transfers of the Hong Kong Offer Shares which you have successfully applied for and/or the dispatch of H Share certificate(s) to which you are entitled.

It is important that the holders of the Hong Kong Offer Shares inform the Bank and the H Share Registrar immediately of any inaccuracies in the personal data supplied.

**Purposes**

Your personal data may be used, held, processed, and/or stored (by whatever means) for the following purposes:

- processing your application and refund cheque and e-Refund payment instruction(s), where applicable, verification of compliance with the terms and application procedures set out in this document and announcing results of allocation of the Hong Kong Offer Shares;

- compliance with applicable laws and regulations in Hong Kong and elsewhere;

- registering new issues or transfers into or out of the names of the holders of the H Shares including, where applicable, HKSCC Nominees;

- maintaining or updating the register of members of the Bank;

- verifying identities of the holders of the H Shares;

- establishing benefit entitlements of holders of the H Shares, such as dividends, rights issues, bonus issues, etc.;

- distributing communications from the Bank and its subsidiaries;

- compiling statistical information and profiles of the holder of the H Shares;

- disclosing relevant information to facilitate claims on entitlements; and

- any other incidental or associated purposes relating to the above and/or to enable the Bank and the H Share Registrar to discharge their obligations to holders of the H Shares and/or regulators and/or any other purposes to which the holders of the H Shares may from time to time agree.

**Transfer of personal data**

Personal data held by the Bank and the H Share Registrar relating to the holders of the Hong Kong Offer Shares will be kept confidential but the Bank and the H Share Registrar may, to the extent necessary for achieving any of the above purposes, disclose, obtain or transfer (whether within or outside Hong Kong) the personal data to, from or with any of the following:

- the Bank's appointed agents such as financial advisers, receiving banks and overseas principal H Share Registrar;
- where applicants for the Hong Kong Offer Shares request a deposit into CCASS, HKSCC or HKSCC Nominees, who will use the personal data for the purposes of operating CCASS;
- any agents, contractors or third-party service providers who offer administrative, telecommunications, computer, payment or other services to the Bank or the H Share Registrar in connection with their respective business operation;
- the Hong Kong Stock Exchange, the SFC and any other statutory regulatory or governmental bodies or otherwise as required by laws, rules or regulations; and
- any persons or institutions with which the holders of the Hong Kong Offer Shares have or propose to have dealings, such as their bankers, solicitors, accountants or stockbrokers etc.

**Retention of personal data**

The Bank and the H Share Registrar will keep the personal data of the applicants and holders of the Hong Kong Offer Shares for as long as necessary to fulfill the purposes for which the personal data were collected. Personal data which is no longer required will be destroyed or dealt with in accordance with the Personal Data (Privacy) Ordinance.

**Access to and correction of personal data**

Holders of the Hong Kong Offer Shares have the right to ascertain whether the Bank or the H Share Registrar hold their personal data, to obtain a copy of that data, and to correct any data that is inaccurate. The Bank and the H Share Registrar have the right to charge a reasonable fee for the processing of such requests. All requests for access to data or correction of data should be addressed to the Bank and the H Share Registrar, at their registered address disclosed in the section headed "*Corporate information*" in this document or as notified from time to time, for the attention of the company secretary, or the H Share Registrar for the attention of the privacy compliance officer.

7. **Warning For Electronic Applications**

The application for the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Hong Kong Offer Shares through the **White Form eIPO** service is also only a facility provided by the **White Form eIPO** Service

Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last day for applications to make your electronic applications. The Bank, the Relevant Persons and the **White Form eIPO** Service Provider take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **White Form eIPO** service will be allocated any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCASS Internet System for submission of **electronic application instructions**, they should go to HKSCC's Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Tuesday, September 21, 2021.

8. **How Many Applications Can You Make**

Multiple applications for the Hong Kong Offer Shares are not allowed except by nominees.

All of your applications will be rejected if more than one application by giving **electronic application instructions** to HKSCC or through the **White Form eIPO** service, is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**).

If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

"**Unlisted company**" means a company with no equity securities listed on the Hong Kong Stock Exchange. "**Statutory control**" means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

## B. HOW MUCH ARE THE HONG KONG OFFER SHARES

The maximum Offer Price is HK$8.71 per Offer Share. You must pay the maximum Offer Price, brokerage of 1%, SFC transaction levy of 0.0027% and the Hong Kong Stock Exchange trading fee of 0.005% in full upon application for the Hong Kong Offer Shares under the terms set out in the paragraph "*– Minimum Application Amount and Permitted Numbers*" in this section. This means that for one board lot of 1,000 Hong Kong Offer Shares, you will pay HK$8,797.78.

You may submit an application through the **White Form eIPO** service in respect of a minimum of 1,000 Hong Kong Offer Shares. Each application or **electronic application instruction** in respect of more than 1,000 Hong Kong Offer Shares must be in one of the numbers set out in the paragraph "– *Minimum Application Amount and Permitted Numbers*" in this section, or as otherwise specified on the designated website at **www.eipo.com.hk**.

If your application is successful, brokerage will be paid to the Exchange Participants (as defined in the Listing Rules), and the SFC transaction levy and the Hong Kong Stock Exchange trading fee will be paid to the Hong Kong Stock Exchange (in the case of the SFC transaction levy, collected by the Hong Kong Stock Exchange on behalf of the SFC).

For further details on the Offer Price, see the section headed "*Structure of the Global Offering – Pricing and Allocation*" in this prospectus.

## C. EFFECT OF BAD WEATHER AND/OR EXTREME CONDITIONS ON THE OPENING AND CLOSING OF THE APPLICATION LISTS

The application lists will not open or close if there is:

- a tropical cyclone warning signal number 8 or above;
- a "black" rainstorm warning; and/or
- Extreme Conditions,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Tuesday, September 21, 2021.Instead they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have either of those warnings and/or Extreme Conditions in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Tuesday, September 21, 2021 or if there is a tropical cyclone warning signal number 8 or above or a "black" rainstorm warning signal and/ or Extreme Conditions in force in Hong Kong that may affect the dates mentioned in the section headed "Expected timetable" in this document, an announcement will be made in such event.

## D. PUBLICATION OF RESULTS

The Bank expects to announce the final Offer Price, the level of indications of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocations of the Hong Kong Offer Shares on Tuesday, September 28, 2021 on the Bank's website at **www.drcbank.com** and the website of the Hong Kong Stock Exchange at **www.hkexnews.hk**.

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and date and in the manner specified below:

- in the announcement to be posted on the Bank's website at **www.drcbank.com** and the Hong Kong Stock Exchange's website at **www.hkexnews.hk** by no later than 9:00 a.m. on Tuesday, September 28, 2021;

- from the designated results of allocations website at **www.iporesults.com.hk** (alternatively: English **https://www.eipo.com.hk/en/Allotment**; Chinese **https://www.eipo.com.hk/zh-hk/Allotment**) with a "search by ID" function on a 24-hour basis from Tuesday, September 28, 2021 to 12:00 midnight on Monday, October 4, 2021;

- from the allocation results telephone enquiry line by calling +852 2862 8555 between 9:00 a.m. and 6:00 p.m. from Tuesday, September 28, 2021, to Monday, October 4, 2021 (excluding Saturday, Sunday or public holiday in Hong Kong).

If the Bank accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details are contained in the section headed "*Structure of the Global Offering*" in this document.

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

## E. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOCATED HONG KONG OFFER SHARES

You should note the following situations in which the Hong Kong Offer Shares will not be allocated to you:

(i) If your application is revoked:

By applying through giving **electronic application instructions** to HKSCC or through the **White Form eIPO** service, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with the Bank.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this document under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this document.

If any supplement to this document is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

(ii) If the Bank or its agents exercise their discretion to reject your application:

The Bank, the Joint Global Coordinators, the **White Form eIPO** Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

(iii) If the allocation of Hong Kong Offer Shares is void:

The allocation of Hong Kong Offer Shares will be void if the Listing Committee of the Hong Kong Stock Exchange does not grant permission to list the H Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies the Bank of that longer period within three weeks of the closing date of the application lists.

(iv) If:

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Offer Shares and International Offer Shares;
- your **electronic application instructions** through the **White Form eIPO** service are not completed in accordance with the instructions, terms and conditions on the designated website at **www.eipo.com.hk**;
- your payment is not made correctly;
- the Underwriting Agreements do not become unconditional or are terminated;
- the Bank or the Joint Global Coordinators believes or believe that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 50% of the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering.

## F. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum Offer Price of HK$8.71 per Offer Share (excluding brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee thereon) paid on application, or if the conditions of the Hong Kong Public Offering as set out in the section headed "*Structure of the Global Offering – Conditions of the Hong Kong Public Offering*" in this document are not satisfied or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee, will be refunded, without interest.

Any refund of your application monies will be made on or before Tuesday, September 28, 2021.

## G. DESPATCH/COLLECTION OF H SHARE CERTIFICATES AND REFUND MONIES

You will receive one H Share certificate for all Hong Kong Offer Shares allotted to you under the Hong Kong Public Offering (except pursuant to applications made by **electronic application instructions** to HKSCC via CCASS where the H Share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the H Shares. No receipt will be issued for sums paid on application.

Subject to arrangement on dispatch/collection of H Share certificates and refund monies as mentioned below, any refund cheques and H Share certificates are expected to be posted on or before Tuesday, September 28, 2021. The right is reserved to retain any H Share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker's cashier's order(s).

H Share certificates will only become valid at 8:00 a.m. on Wednesday, September 29, 2021 **provided that** the Global Offering has become unconditional in all respects at or before that time and the right of termination described in the section headed "*Underwriting*" has not been exercised. Investors who trade H Shares prior to the receipt of H Share certificates or the H Share certificates becoming valid do so entirely at their own risk.

**Personal Collection**

(i) ***If you apply through the White Form eIPO service***

If you apply for 1,000,000 or more Hong Kong Offer Shares through the **White Form eIPO** service, and your application is wholly or partially successful, you may collect your H Share certificate(s) (where applicable) in person from the H Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Tuesday, September 28, 2021, or such other place or date as notified by the Bank as the date of despatch/collection of H Share certificates/e-Refund payment instructions/refund cheques.

If you do not collect your H Share certificate(s) personally within the time specified for collection, it/they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares through the **White Form eIPO** service, your H Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on or **before Tuesday, September 28, 2021, by ordinary post at your own risk**.

If you apply and pay the application monies from a single bank account, any refund monies will be despatched to that bank account in the form of e-Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.

(ii) ***If you apply through CCASS EIPO service***

***Allocation of Hong Kong Offer Shares***

- For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

***Deposit of H Share Certificates into CCASS and Refund of Application Monies***

- If your application is wholly or partially successful, your H Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Tuesday, September 28, 2021, or, on any other date determined by HKSCC or HKSCC Nominees.

- The Bank expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, the Bank will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allocations of the Hong Kong Public Offering in the manner specified in the paragraph headed "— *D. Publication of Results*" in this section on Tuesday, September 28, 2021. You should check the announcement published by the Bank and report any discrepancies to HKSCC before 5:00 p.m. on Tuesday, September 28, 2021or such other date as determined by HKSCC or HKSCC Nominees.

- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Offer Shares allocated to you and the amount of refund monies (if any) payable to you with that broker or custodian.

- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allocated to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) Tuesday, September 28, 2021. Immediately following the credit of the Hong Kong Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.

- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Tuesday, September 28, 2021.

## H. ADMISSION OF THE H SHARES INTO CCASS

If the Hong Kong Stock Exchange grants the listing of, and permission to deal in, the H Shares on the Hong Kong Stock Exchange and we comply with the stock admission requirements of HKSCC, the H Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date as determined by HKSCC. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional advisor for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the H Shares to be admitted into CCASS.

*The following is the text of a report set out on pages I-1 to I-3, received from the Group's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus. It is prepared and addressed to the directors of the Group and to the Joint Sponsors pursuant to the requirements of HKSIR 200 Accountants' Reports on Historical Financial Information in Investment Circulars issued by the Hong Kong Institute of Certified Public Accountants.*

pwc 羅兵咸永道

**ACCOUNTANT'S REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF DONGGUAN RURAL COMMERCIAL BANK CO., LTD. AND CHINA MERCHANTS SECURITIES (HK) CO., LIMITED, CMB INTERNATIONAL CAPITAL LIMITED, ABCI CAPITAL LIMITED AND ICBC INTERNATIONAL CAPITAL LIMITED**

***Introduction***

We report on the historical financial information of Dongguan Rural Commercial Bank Co., Ltd. (the "Bank") and its subsidiaries (together, the "Group") set out on pages I-4 to I-198, which comprises the consolidated statements of financial position as at December 31, 2018, 2019 and 2020 and March 31, 2021, the company statements of financial position as at December 31, 2018, 2019 and 2020 and March 31, 2021, and the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the years ended December 31, 2018, 2019 and 2020 and the three months ended March 31, 2021 (the "Track Record Period") and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages I-4 to I-198 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Bank dated September 16, 2021 (the "Prospectus") in connection with the initial listing of shares of the Bank on the Main Board of The Stock Exchange of Hong Kong Limited.

***Directors' responsibility for the Historical Financial Information***

The directors of the Bank are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

***Reporting accountant's responsibility***

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200, *Accountants' Reports on Historical Financial Information in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

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Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountant's judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountant considers internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

***Opinion***

In our opinion, the Historical Financial Information gives, for the purposes of the accountant's report, a true and fair view of the financial position of the Bank as at December 31, 2018, 2019 and 2020 and March 31, 2021 and the consolidated financial position of the Group as at December 31, 2018, 2019 and 2020 and March 31, 2021 and of its consolidated financial performance and its consolidated cash flows for the Track Record Period in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information.

***Review of stub period comparative financial information***

We have reviewed the stub period comparative financial information of the Group which comprises the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the three months ended March 31, 2020 and other explanatory information (the "Stub Period Comparative Financial Information"). The directors of the Company are responsible for the presentation and preparation of the Stub Period Comparative Financial Information in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with International Standard on Review Engagements 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the International Auditing and Assurance Standards Board ("IAASB"). A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountant's report, is not prepared, in all material respects, in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information.

**Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Companies (Winding Up and Miscellaneous Provisions) Ordinance**

***Adjustments***

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-4 have been made.

***Dividends***

We refer to Note 36 to the Historical Financial Information which contains information about the dividends paid by the Bank in respect of the Track Record Period.

**PricewaterhouseCoopers**
*Certified Public Accountants*
Hong Kong
September 16, 2021

## I HISTORICAL FINANCIAL INFORMATION OF THE GROUP

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountant's report.

The financial statements of the Group for the years ended December 31, 2018, 2019 and 2020 and the three months ended March 31, 2021 ( "the Track Record Period" ), on which the Historical Financial Information is based, were audited by PricewaterhouseCoopers in accordance with International Standards on Auditing issued by the International Auditing and Assurance Standards Board ("Underlying Financial Statements").

The Historical Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

### CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| | | Years ended December 31, | | | Three months ended March 31, | |
|---|---|---|---|---|---|---|
| | Note | 2018 | 2019 | 2020 | 2020 | 2021 |
| | | | | | (Unaudited) | |
| Interest income | 4 | 16,114,672 | 17,353,111 | 19,517,604 | 4,757,632 | 5,304,303 |
| Interest expense | 4 | (8,794,276) | (8,551,824) | (9,585,225) | (2,230,423) | (2,723,955) |
| **Net interest income** | | 7,320,396 | 8,801,287 | 9,932,379 | 2,527,209 | 2,580,348 |
| Fee and commission income | 5 | 1,052,724 | 1,184,060 | 995,075 | 207,146 | 226,116 |
| Fee and commission expense | 5 | (101,160) | (129,287) | (54,696) | (14,873) | (32,699) |
| **Net fee and commission income** | | 951,564 | 1,054,773 | 940,379 | 192,273 | 193,417 |
| Net trading gains | 6 | 1,223,009 | 1,133,273 | 881,282 | 361,262 | 308,217 |
| Net gains on financial investments | 7 | 82,018 | 462,874 | 181,903 | 57,600 | 57,464 |
| Other operating income | 8 | 200,600 | 343,020 | 111,104 | 34,716 | 16,550 |
| **Operating income** | | 9,777,587 | 11,795,227 | 12,047,047 | 3,173,060 | 3,155,996 |
| Operating expenses | 9 | (3,049,329) | (3,535,757) | (3,924,886) | (1,008,265) | (898,983) |
| Expected credit losses and asset losses | 12 | (1,717,078) | (2,593,543) | (2,774,335) | (437,220) | (272,553) |
| **Operating profit** | | 5,011,180 | 5,665,927 | 5,347,826 | 1,727,575 | 1,984,460 |
| Share of profits of associates | 20 | 23,048 | 34,847 | 24,283 | 6,352 | 15,680 |
| **Profit before tax** | | 5,034,228 | 5,700,774 | 5,372,109 | 1,733,927 | 2,000,140 |
| Income tax expense | 13 | (580,922) | (830,525) | (316,792) | (206,465) | (240,939) |
| **Net profit** | | 4,453,306 | 4,870,249 | 5,055,317 | 1,527,462 | 1,759,201 |

| | Note | Years ended December 31, 2018 | 2019 | 2020 | Three months ended March 31, 2020 (Unaudited) | 2021 |
|---|---|---|---|---|---|---|
| **Net profit attributable to:** | | | | | | |
| Shareholders of the Bank | | 4,482,351 | 4,935,856 | 4,856,926 | 1,500,924 | 1,711,808 |
| Non-controlling interests | | (29,045) | (65,607) | 198,391 | 26,538 | 47,393 |
| | | 4,453,306 | 4,870,249 | 5,055,317 | 1,527,462 | 1,759,201 |
| Basic and diluted earnings per share for profit attributable to the shareholders of the Bank (expressed in RMB per share) | 14 | 0.78 | 0.86 | 0.85 | 0.26 | 0.30 |
| **Other comprehensive income/(losses)** | 33 | | | | | |
| **Items which may be reclassified to profit or loss:** | | | | | | |
| Changes in fair value of financial assets at fair value through other comprehensive income | | 1,654,946 | (865,093) | (1,510,171) | 690,586 | (220,622) |
| Credit impairment provision for financial assets at fair value through other comprehensive income | | 612,095 | 1,731,008 | 98,386 | 105,946 | 103,868 |
| Impact on income tax on changes in fair value and credit impairment provision of financial assets at fair value through other comprehensive income | | (566,760) | (216,447) | 352,897 | (199,133) | 29,188 |
| **Items will not be reclassified to profit or loss:** | | | | | | |
| Changes in fair value of equity instruments designated at fair value through other comprehensive income | | (3,822) | 10,577 | 2,557 | (7,367) | 3,073 |
| Impact on income tax on changes in fair value of equity instruments designated at fair value through other comprehensive income | | 956 | (2,644) | (639) | 1,842 | (768) |
| | | 1,697,415 | 657,401 | (1,056,970) | 591,874 | (85,261) |
| **Total comprehensive income** | | 6,150,721 | 5,527,650 | 3,998,347 | 2,119,336 | 1,673,940 |
| Total comprehensive income attributable to: | | | | | | |
| Shareholders of the Bank | | 6,176,742 | 5,592,152 | 3,823,743 | 2,088,555 | 1,615,558 |
| Non-controlling interests | | (26,021) | (64,502) | 174,604 | 30,781 | 58,382 |
| | | 6,150,721 | 5,527,650 | 3,998,347 | 2,119,336 | 1,673,940 |

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

| | Note | As at December 31, 2018 | As at December 31, 2019 | As at December 31, 2020 | As at March 31, 2021 |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Cash and balances with central banks | 15 | 40,296,882 | 39,557,171 | 38,576,454 | 36,955,877 |
| Financial assets held under resale agreements and deposits and placements with banks and other financial institutions | 16 | 15,033,574 | 21,299,663 | 18,707,434 | 19,338,941 |
| Loans and advances to customers | 17 | 157,445,661 | 198,970,638 | 254,641,762 | 268,689,883 |
| Financial investments | 18 | 188,997,400 | 195,475,309 | 227,713,101 | 231,006,625 |
| — Financial assets at fair value through profit or loss | | 34,974,737 | 30,254,846 | 36,101,567 | 37,097,217 |
| — Financial investments at amortized cost | | 67,979,559 | 86,869,578 | 111,667,933 | 109,770,386 |
| — Financial investments at fair value through other comprehensive income | | 86,043,104 | 78,350,885 | 79,943,601 | 84,139,022 |
| Investment in associates | 20 | 267,662 | 430,645 | 432,990 | 448,670 |
| Property and equipment | 21 | 1,396,123 | 1,577,638 | 2,432,773 | 2,466,700 |
| Right-of-use assets | 22 | 629,949 | 613,557 | 612,164 | 595,150 |
| Goodwill | 23 | — | 181,381 | 520,521 | 520,521 |
| Deferred tax assets | 24 | 1,683,771 | 2,018,115 | 3,054,183 | 3,089,073 |
| Other assets | 25 | 2,153,630 | 1,084,685 | 1,710,574 | 1,446,752 |
| **Total assets** | | 407,904,652 | 461,208,802 | 548,401,956 | 564,558,192 |
| **LIABILITIES** | | | | | |
| Borrowings from central banks | 26 | 644,513 | 2,601,164 | 30,653,358 | 29,870,602 |
| Financial assets sold under repurchase agreements and deposits and placements from banks and other financial institutions | 27 | 53,204,378 | 46,373,159 | 43,482,217 | 45,590,795 |
| Financial liabilities at fair value through profit or loss | | 24,494 | 132,398 | 238,841 | 230,174 |
| Deposits from customers | 28 | 265,004,892 | 314,217,005 | 377,548,894 | 389,641,304 |
| Debt securities issued | 29 | 55,676,725 | 58,271,670 | 50,249,237 | 54,780,901 |
| Taxes payable | 30 | 536,413 | 913,821 | 822,735 | 1,060,824 |
| Lease liabilities | 22 | 499,967 | 456,383 | 450,860 | 433,137 |
| Other liabilities | 31 | 2,478,697 | 2,771,421 | 6,313,000 | 2,633,701 |
| **Total liabilities** | | 378,070,079 | 425,737,021 | 509,759,142 | 524,241,438 |
| **EQUITY** | | | | | |
| Share capital | 32 | 5,740,455 | 5,740,455 | 5,740,455 | 5,740,455 |
| Revaluation reserve | 33 | 573,178 | 1,229,474 | 196,291 | 100,041 |
| Surplus reserve | 34 | 6,203,996 | 6,705,033 | 7,177,594 | 7,177,594 |
| General reserve | 34 | 5,017,771 | 5,284,125 | 5,767,735 | 5,767,735 |
| Retained earnings | | 12,053,080 | 14,855,317 | 17,263,552 | 18,975,360 |
| Total equity attributable to shareholders of the Bank | | 29,588,480 | 33,814,404 | 36,145,627 | 37,761,185 |
| Non-controlling interests | | 246,093 | 1,657,377 | 2,497,187 | 2,555,569 |
| **Total equity** | | 29,834,573 | 35,471,781 | 38,642,814 | 40,316,754 |
| **Total liabilities and equity** | | 407,904,652 | 461,208,802 | 548,401,956 | 564,558,192 |

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

| | Equity attributable to shareholders of the Bank | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Share capital** | **Revaluation reserve** | **Surplus reserve** | **General reserve** | **Retained earnings** | **Non-controlling interests** | **Total** |
| | *(Note 32)* | *(Note 33)* | *(Note 34)* | *(Note 34)* | | | |
| **As at January 1, 2018** | 5,740,455 | (1,121,213) | 2,747,740 | 4,787,719 | 12,565,862 | 290,148 | 25,010,711 |
| Net profit for the year | — | — | — | — | 4,482,351 | (29,045) | 4,453,306 |
| Other comprehensive income | — | 1,694,391 | — | — | — | 3,024 | 1,697,415 |
| **Total comprehensive income** | — | 1,694,391 | — | — | 4,482,351 | (26,021) | 6,150,721 |
| Appropriation to surplus reserve | — | — | 3,456,256 | — | (3,456,256) | — | — |
| Appropriation to general reserve | — | — | — | 230,052 | (230,052) | — | — |
| Dividend distribution (Note 36) | — | — | — | — | (1,308,825) | (18,034) | (1,326,859) |
| **As at December 31, 2018** | 5,740,455 | 573,178 | 6,203,996 | 5,017,771 | 12,053,080 | 246,093 | 29,834,573 |
| **As at January 1, 2019** | 5,740,455 | 573,178 | 6,203,996 | 5,017,771 | 12,053,080 | 246,093 | 29,834,573 |
| Net profit for the year | — | — | — | — | 4,935,856 | (65,607) | 4,870,249 |
| Other comprehensive income | — | 656,296 | — | — | — | 1,105 | 657,401 |
| **Total comprehensive income** | — | 656,296 | — | — | 4,935,856 | (64,502) | 5,527,650 |
| Acquisition of a subsidiary | — | — | — | — | — | 1,480,921 | 1,480,921 |
| Appropriation to surplus reserve | — | — | 501,037 | — | (501,037) | — | — |
| Appropriation to general reserve | — | — | — | 266,354 | (266,354) | — | — |
| Dividend distribution (Note 36) | — | — | — | — | (1,366,228) | (5,135) | (1,371,363) |
| **As at December 31, 2019** | 5,740,455 | 1,229,474 | 6,705,033 | 5,284,125 | 14,855,317 | 1,657,377 | 35,471,781 |

| | Equity attributable to shareholders of the Bank | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Share capital** | **Revaluation reserve** | **Surplus reserve** | **General reserve** | **Retained earnings** | **Non-controlling interests** | **Total** |
| | *(Note 32)* | *(Note 33)* | *(Note 34)* | *(Note 34)* | | | |
| **As at January 1, 2020** | 5,740,455 | 1,229,474 | 6,705,033 | 5,284,125 | 14,855,317 | 1,657,377 | 35,471,781 |
| Net profit for the year | — | — | — | — | 4,856,926 | 198,391 | 5,055,317 |
| Other comprehensive income | — | (1,033,183) | — | — | — | (23,787) | (1,056,970) |
| **Total comprehensive income** | — | (1,033,183) | — | — | 4,856,926 | 174,604 | 3,998,347 |
| Acquisition of a subsidiary | — | — | — | — | — | 727,272 | 727,272 |
| Appropriation to surplus reserve | — | — | 472,561 | — | (472,561) | — | — |
| Appropriation to general reserve | — | — | — | 483,610 | (483,610) | — | — |
| Dividend distribution (Note 36) | — | — | — | — | (1,492,520) | (62,066) | (1,554,586) |
| **As at December 31, 2020** | 5,740,455 | 196,291 | 7,177,594 | 5,767,735 | 17,263,552 | 2,497,187 | 38,642,814 |
| (Unaudited) | | | | | | | |
| **As at January 1, 2020** | 5,740,455 | 1,229,474 | 6,705,033 | 5,284,125 | 14,855,317 | 1,657,377 | 35,471,781 |
| Net profit for the period | — | — | — | — | 1,500,924 | 26,538 | 1,527,462 |
| Other comprehensive income | — | 587,631 | — | — | — | 4,243 | 591,874 |
| **Total comprehensive income** | — | 587,631 | — | — | 1,500,924 | 30,781 | 2,119,336 |
| Appropriation to surplus reserve | — | — | — | — | — | — | — |
| Appropriation to general reserve | — | — | — | — | — | — | — |
| Dividend distribution (Note 36) | — | — | — | — | — | — | — |
| **As at March 31, 2020(Unaudited)** | 5,740,455 | 1,817,105 | 6,705,033 | 5,284,125 | 16,356,241 | 1,688,158 | 37,591,117 |

| | Equity attributable to shareholders of the Bank | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Share capital** | **Revaluation reserve** | **Surplus reserve** | **General reserve** | **Retained earnings** | **Non-controlling interests** | **Total** |
| | *(Note 32)* | *(Note 33)* | *(Note 34)* | *(Note 34)* | | | |
| **As at January 1, 2021** | 5,740,455 | 196,291 | 7,177,594 | 5,767,735 | 17,263,552 | 2,497,187 | 38,642,814 |
| Net profit for the period | — | — | — | — | 1,711,808 | 47,393 | 1,759,201 |
| Other comprehensive income | — | (96,250) | — | — | — | 10,989 | (85,261) |
| **Total comprehensive income** | — | (96,250) | — | — | 1,711,808 | 58,382 | 1,673,940 |
| Appropriation to surplus reserve | — | — | — | — | — | — | — |
| Appropriation to general reserve | — | — | — | — | — | — | — |
| Dividend distribution (Note 36) | — | — | — | — | — | — | — |
| **As at March 31, 2021** | 5,740,455 | 100,041 | 7,177,594 | 5,767,735 | 18,975,360 | 2,555,569 | 40,316,754 |

**CONSOLIDATED CASH FLOW STATEMENTS**

| | Note | Years ended December 31, | | | Three months ended March 31, | |
|---|---|---|---|---|---|---|
| | | 2018 | 2019 | 2020 | 2020 | 2021 |
| | | | | | (Unaudited) | |
| **Cash flows from operating activities:** | | | | | | |
| Profit before tax | | 5,034,228 | 5,700,774 | 5,372,109 | 1,733,927 | 2,000,140 |
| Adjust for: | | | | | | |
| Expected credit losses and asset losses | 12 | 1,717,078 | 2,593,543 | 2,774,335 | 437,220 | 272,553 |
| Interest income from financial investments | 4 | (6,523,443) | (6,256,619) | (5,980,844) | (1,511,360) | (1,596,023) |
| Interest expense on debt securities issued | 4 | 1,990,457 | 1,891,196 | 1,778,187 | 506,837 | 411,126 |
| Interest expense on lease liabilities | 4 | 21,734 | 24,497 | 17,174 | 4,504 | 4,369 |
| Net trading gains | 6 | (1,223,009) | (1,133,273) | (881,282) | (361,262) | (308,217) |
| Net gains on financial investments | 7 | (82,018) | (462,874) | (181,903) | (57,600) | (57,464) |
| Net gains on disposal of property, equipment and other long-term assets | 8 | (148,079) | (296,420) | (73,453) | (25,929) | (5,212) |
| Depreciation and amortization | 9 | 355,164 | 320,228 | 351,126 | 108,908 | 124,595 |
| Share of profits of associates | 20 | (23,048) | (34,847) | (24,283) | (6,352) | (15,680) |
| | | 1,119,064 | 2,346,205 | 3,151,166 | 828,893 | 830,187 |
| **Net increase in operating assets:** | | | | | | |
| Net decrease/(increase) in balances with central banks | | 3,472,895 | 4,220,996 | 3,003,430 | 2,836,642 | (1,184,106) |
| Net decrease/(increase) in financial assets held under resale agreements and deposits and placements with banks and other financial institutions | | 11,953,385 | (3,751,011) | 9,018,517 | 2,059,805 | (205,774) |
| Net increase in loans and advances to customers | | (19,341,214) | (31,114,241) | (52,354,611) | (12,091,757) | (14,164,754) |
| Net decrease/(increase) in other operating assets | | 25,198 | (402,049) | (481,947) | (87,657) | 207,528 |
| | | (3,889,736) | (31,046,305) | (40,814,611) | (7,282,967) | (15,347,106) |

| | | Years ended December 31, | | | Three months ended March 31, | |
|---|---|---|---|---|---|---|
| | Note | 2018 | 2019 | 2020 | 2020 | 2021 |
| | | | | | (Unaudited) | |
| **Net increase in operating liabilities:** | | | | | | |
| Net increase/(decrease) in borrowings from central banks | | 328,712 | 1,956,651 | 28,040,491 | 1,669,604 | (782,756) |
| Net (decrease)/increase in financial assets sold under repurchase agreements and deposits and placements from banks and other financial institutions | | (12,116,074) | (6,865,281) | (3,598,757) | (17,385,124) | 2,108,578 |
| Net increase in deposits from customers | | 21,126,348 | 27,334,849 | 33,673,990 | 4,375,835 | 12,092,410 |
| Net increase/(decrease) in other operating liabilities | | 370,681 | 295,045 | 932,267 | (123,912) | (1,178,787) |
| | | 9,709,667 | 22,721,264 | 59,047,991 | (11,463,597) | 12,239,445 |
| Cash from operations | | 6,938,995 | (5,978,836) | 21,384,546 | (17,917,671) | (2,277,474) |
| Income tax paid | | (714,327) | (1,018,781) | (1,070,229) | (63,692) | (23,379) |
| **Net cash generated from/(used in) operating activities** | | 6,224,668 | (6,997,617) | 20,314,317 | (17,981,363) | (2,300,853) |
| **Cash flows from investing activities:** | | | | | | |
| Cash received from disposal of financial investments | | 253,344,639 | 211,958,380 | 214,106,873 | 46,356,499 | 59,779,331 |
| Net cash received from disposal of property, equipment and other long-term assets | | 24,984 | 348,556 | 139,110 | 65,923 | 13,088 |
| Cash dividends received | | 43,427 | 58,549 | 56,255 | — | 1,800 |
| Cash paid to acquire financial investments | | (266,965,670) | (209,137,095) | (223,919,224) | (40,770,794) | (63,722,599) |
| Cash paid to acquire property, equipment and other long-term assets | | (163,454) | (227,273) | (576,340) | (119,805) | (116,327) |
| Cash (paid for)/received from investment in a subsidiary, net | 38 | (1,178,000) | 4,560,267 | 7,435,252 | — | — |
| Net proceeds from other investing activities | | 2,921 | 37,511 | 55,351 | 10,969 | 13,268 |
| **Net cash (used in)/generated from investing activities** | | (14,891,153) | 7,598,895 | (2,702,723) | 5,542,792 | (4,031,439) |

| | Note | Years ended December 31, 2018 | 2019 | 2020 | Three months ended March 31, 2020 | 2021 |
|---|---|---|---|---|---|---|
| | | | | | (Unaudited) | |
| **Cash flows from financing activities:** | | | | | | |
| Cash received for debt securities issued | | 102,640,000 | 87,817,901 | 109,139,297 | 38,294,884 | 24,560,718 |
| Cash payments for debt securities issued | | (85,140,926) | (87,114,152) | (118,939,917) | (29,870,000) | (20,440,180) |
| Cash payments for distribution of dividends | | (1,326,860) | (1,371,363) | (1,554,586) | — | — |
| Cash payments for leases | | (121,884) | (124,219) | (128,035) | (32,070) | (35,360) |
| Cash payments to be deducted against equity upon listing expenses | | — | (9,762) | (14,882) | (13,470) | (17,955) |
| **Net cash generated from/(used in) financing activities** | | 16,050,330 | (801,595) | (11,498,123) | 8,379,344 | 4,067,223 |
| **Effect of foreign exchange rate changes on cash and cash equivalents** | | 39,053 | 21,321 | (109,086) | (11,308) | (98,566) |
| Net increase/(decrease) in cash and cash equivalents | | 7,422,898 | (178,996) | 6,004,385 | (4,070,535) | (2,363,635) |
| Cash and cash equivalents at the beginning of the year/period | | 16,011,336 | 23,434,234 | 23,255,238 | 23,255,238 | 29,259,623 |
| **Cash and cash equivalents at the end of the year/period** | 35 | 23,434,234 | 23,255,238 | 29,259,623 | 19,184,703 | 26,895,988 |

**STATEMENTS OF FINANCIAL POSITION OF THE BANK**

| | Note | As at December 31, 2018 | As at December 31, 2019 | As at December 31, 2020 | As at March 31, 2021 |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Cash and balances with central banks | 15 | 39,906,098 | 37,063,305 | 32,372,011 | 30,940,399 |
| Financial assets held under resale agreements and deposits and placements with banks and other financial institutions | 16 | 14,597,973 | 15,561,236 | 13,880,849 | 15,121,535 |
| Loans and advances to customers | 17 | 155,255,266 | 185,112,186 | 234,685,274 | 245,968,915 |
| Financial investments | 18 | 186,732,039 | 186,902,567 | 191,100,234 | 194,188,965 |
| — Financial assets at fair value through profit or loss | | 34,974,737 | 30,254,846 | 35,971,047 | 36,731,865 |
| — Financial investments at amortized cost | | 67,811,115 | 80,462,517 | 78,721,881 | 82,099,003 |
| — Financial investments at fair value through other comprehensive income | | 83,946,187 | 76,185,204 | 76,407,306 | 75,358,097 |
| Investment in subsidiaries | 19 | 290,000 | 1,917,760 | 3,735,487 | 3,735,487 |
| Investment in associates | 20 | 267,662 | 430,645 | 432,990 | 448,670 |
| Property and equipment | 21 | 1,378,758 | 1,396,004 | 1,760,613 | 1,831,806 |
| Right-of-use assets | 22 | 600,063 | 549,267 | 495,877 | 483,322 |
| Deferred tax assets | 24 | 1,578,504 | 1,849,222 | 2,765,742 | 2,810,137 |
| Other assets | 25 | 2,132,311 | 1,012,920 | 1,497,714 | 1,225,632 |
| **Total assets** | | 402,738,674 | 431,795,112 | 482,726,791 | 496,754,868 |
| **LIABILITIES** | | | | | |
| Borrowings from central banks | 26 | 600,504 | 2,540,133 | 30,239,596 | 29,495,549 |
| Financial assets sold under repurchase agreements and deposits and placements from banks and other financial institutions | 27 | 53,065,507 | 46,784,620 | 41,899,089 | 44,373,729 |
| Financial liabilities at fair value through profit or loss | | 24,494 | 132,398 | 238,841 | 230,174 |
| Deposits from customers | 28 | 260,341,820 | 286,159,506 | 316,367,152 | 325,520,897 |
| Debt securities issued | 29 | 55,628,613 | 58,421,670 | 50,635,237 | 55,668,282 |
| Taxes payable | 30 | 533,271 | 849,282 | 820,579 | 1,023,639 |
| Lease liabilities | 22 | 468,737 | 408,532 | 348,473 | 334,546 |
| Other liabilities | 31 | 2,463,644 | 2,613,348 | 6,021,258 | 2,427,285 |
| **Total liabilities** | | 373,126,590 | 397,909,489 | 446,570,225 | 459,074,101 |

| | | As at December 31, | | | As at March 31, |
|---|---|---|---|---|---|
| | Note | 2018 | 2019 | 2020 | 2021 |
| **EQUITY** | | | | | |
| Share capital | 32 | 5,740,455 | 5,740,455 | 5,740,455 | 5,740,455 |
| Revaluation reserve | 33 | 545,242 | 1,174,639 | 212,485 | 118,233 |
| Surplus reserve | 34 | 6,203,996 | 6,705,033 | 7,177,594 | 7,177,594 |
| General reserve | 34 | 4,995,563 | 5,246,082 | 5,718,643 | 5,718,643 |
| Retained earnings | | 12,126,828 | 15,019,414 | 17,307,389 | 18,925,842 |
| **Total equity** | | 29,612,084 | 33,885,623 | 36,156,566 | 37,680,767 |
| **TOTAL LIABILITIES AND EQUITY** | | 402,738,674 | 431,795,112 | 482,726,791 | 496,754,868 |

## II NOTES TO THE HISTORICAL FINANCIAL INFORMATION

### 1 General information

Dongguan Rural Commercial Bank Co., Ltd. ("the Bank") primary established in 1952, formerly known as Dongguan Rural Credit Cooperatives Union ("Dongguan Cooperatives Union"). Subsequently, as per the approval by China Banking and Insurance Regulatory Commission ("CBIRC", formerly China Banking Regulatory Commission), Dongguan Cooperatives Union was restructured into a joint-stock commercial bank, and officially changed its name to Dongguan Rural Commercial Bank Co., Ltd. on December 22, 2009.

The Bank operates under financial services certificate NO. B1054H244190001 issued by CBIRC, and the Business License issued by the State Administration for Industry and Commerce of the People's Republic of China (registration ID: 914419007829859746). The registered address is Hongfu East Road No. 2, Dongcheng District, Dongguan, Guangdong.

The Bank and its subsidiaries (collectively referred to as "the Group") operate in the People's Republic of China (the "PRC") and are principally engaged in the following activities: corporate and individual deposits, loans and advances, payment and settlement, treasury and other banking business approved by CBIRC.

### 2 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the Historical Financial Information are set out below. These policies have been consistently applied to relevant periods presented unless otherwise stated.

### 2.1 Basis of preparation

The Historical Financial Information of the Group have been prepared in accordance with all the applicable *International Financial Reporting Standards* ("IFRSs") issued by International Accounting Standards Board ("IASB").

All effective standards, amendments to standards and interpretations, which are mandatory for the financial year beginning on January 1, 2021 including IFRS 9, IFRS 15 and IFRS 16, are consistently applied to the Group throughout the Track Record Period.

The Historical Financial Information has been prepared under the historical cost convention except for certain financial instruments which are measured at fair value.

The preparation of the Historical Financial information in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to Historical Financial information are presented in Note 3.

2.1.1 New and revised IFRSs issued but not yet effective

| | | Effective for the annual periods beginning on or after |
|---|---|---|
| Amendments to IFRS 10 and IAS 28 | Sale or contribution of assets between an investor and its associate or joint venture | To be determined. |
| Amendments to IFRS 16 | Covid-19 — Related Rent Concessions beyond June 30, 2021 | April 1, 2021 |
| Amendments to IAS 1 | Classification of Liabilities as Current or Non-current | January 1, 2022 |
| Amendments to IAS 16 | Property, Plant and Equipment: Proceeds before intended use | January 1, 2022 |
| Amendments to IFRS 3 | Reference to the Conceptual Framework | January 1, 2022 |
| Amendments to IAS 37 | Onerous Contracts — Cost of Fulfilling a Contract | January 1, 2022 |
| Annual Improvements to IFRS Standards 2018–2020 | | January 1, 2022 |
| IFRS 17 | Insurance contracts | January 1, 2023 |

The Group does not expect that adoption of these standards will have a significant impact on the Group's financial position and performance.

**2.2 Consolidated financial statements**

2.2.1 Basis of consolidation

The Historical Financial Information include the financial statements of the Bank and its subsidiaries as well as structured entities controlled by the Group. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Income and expense of subsidiaries acquired or disposed of during the year are included in the consolidated statements of comprehensive income from the date of acquisition or up to the date on which control ceases, respectively.

Adjustments are made to the financial statements of subsidiaries, where appropriate, to consistently reflect the accounting policies of the Group.

All intra-group transactions, balances and unrealized gains on transactions are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Non-controlling interests of consolidated subsidiaries are presented separately from the controlling party's equity therein.

The carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Further, total comprehensive income of a subsidiary is attributed, based on the proportion of their respective holdings, to the equity holders of the Bank and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

In the Bank's statement of financial position, its investments in subsidiaries are stated at cost, less impairment losses, if any.

2.2.2 Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition date fair value of the assets transferred by the Group, liabilities incurred or assumed by the Group, and any equity interests issued by the Group. Acquisition related costs are recognized in the statements of comprehensive income as incurred.

At the acquisition date, irrespective of non-controlling interests, the identifiable assets acquired and liabilities and contingent liabilities assumed are recognized at their fair values; except that deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognized and measured in accordance with IAS 12 — Income Taxes and IAS 19 — Employee Benefits, respectively.

Goodwill is measured as the excess of the difference between (i) the consideration transferred, the fair value of any non-controlling interests in the acquiree, and the fair value of the Group's previously held equity interest in the acquiree (if any) and (ii) the net fair value of the identifiable assets acquired and the liabilities and contingent liabilities incurred or assumed.

Non-controlling interests that represent ownership interests in the acquiree, and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are accounted for at either fair value or the non-controlling interests' proportionate share in the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

2.2.3 Goodwill

Goodwill represents the excess of the cost of an acquisition less the fair value of the Group's share of the net identifiable assets of acquired subsidiaries and associates at the date of acquisition. Goodwill on acquisitions of subsidiaries is presented separately in the consolidated statement of financial position. Goodwill on acquisition of associates is included in investment in associates.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units ("CGU") or groups of CGUs that is expected to benefit from the synergies of the business combination.

A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

A CGU to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the CGU, which is the higher of fair value less costs to sell and value in use, is less than its carrying amount, the deficit, reflecting an impairment loss, is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to the other assets of the CGU on a pro-rata basis, based on the carrying amount of each asset in the CGU. Any goodwill impairment loss is recognized directly in the consolidated income statement. An impairment loss recognized for goodwill is not reversed in subsequent periods.

**2.3 Associates**

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but does not constitute control or joint control over those policy decisions.

The post-acquisition profit or loss of an associate is incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investment in an associate is initially recognized at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of loss of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognizing its share of further loss. Additional loss is recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

At the end of each reporting period, the Group considers whether there are circumstances that indicate the possibility of impairment of the Group's investment in an associate; when that is the case, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 — Impairment of Assets, as a single asset by comparing its recoverable amount (the higher of fair value less costs to sell and value in use) with its carrying amount, any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of an impairment loss is recognized, to the extent that the recoverable amount of the investment subsequently increases.

When an entity in the Group transacts with the Group's associate, profits and losses resulting from the transaction are recognized in the Group's consolidated financial statements only to the extent of the interest in the associate that are not related to the Group. Unrealized losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred.

**2.4 Foreign currency translation**

The functional currency of the Group is Chinese RMB ("RMB"). The presentation currency of the Group and the Bank is RMB.

In preparing the financial statements of each individual Group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchange prevailing at the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured at historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognized in the consolidated statements of comprehensive income in the period in which they arise.

Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in the consolidated statements of comprehensive income for the period except for exchange differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income, in which cases, the exchange differences are also recognized directly in other comprehensive income.

**2.5 Interest income and expense**

Interest income and expenses of financial instruments are calculated using the effective interest method and included in the current profit and loss.

The Group uses the effective interest method to calculate the interest income and expenses of financial assets and liabilities measured at amortized cost, presented as "interest income" and interest expenses" respectively. For specific accounting policies, please refer to the Note 2.12 Subsequent measurement of financial instruments for related accounting policies.

**2.6 Fee and commission income**

Fee and commission income is recognized when the Group fulfills its performance obligation, either over time or at a point in time when a customer obtains control of the service. For the performance obligations satisfied at a point in time, the Group recognizes revenue when control is passed to the customer at a certain point in time, including insurance agency fee, merchant acquiring service fee, settlement & clearing services and bond underwriting fee, etc. For the performance obligations satisfied over time, the Group recognizes revenue according to the progress toward satisfaction of the obligation over the time, including consultancy and advisory fee and custodial fee, etc.

**2.7 Dividend income**

Dividend is recognized in profit or loss only when the Group's right to receive payment of the dividends is established.

**2.8 Government grants**

Government grants are recognized when there is reasonable assurance that the grants will be received and that the Group will comply with the conditions attaching to the grants. Government grants are measured at the amount received or will be received when recognized as monetary assets. Government grants are measured at fair value when recognized as non-monetary assets.

**2.9 Employee benefits**

Employee benefits are all forms of consideration given and other relevant expenditure incurred by the Group in exchange for services rendered by employees or for termination of the employment contracts. These benefits include short-term employee benefits, post-employment benefits and early retirement benefits.

***Short-term employee benefits***

In the reporting period in which an employee has rendered services, the Group recognizes the short-term employee benefits payable for those services as a liability with a corresponding increase in the expenses in the consolidated income statement. Short-term employee benefits include salaries, bonuses, allowance and subsidies, staff welfare, medical insurance, employment injury insurance, maternity insurance, housing funds as well as labor union fees and staff education expenses.

***Post-employment benefits***

The Group's post-employment benefits are primarily the payments for basic pensions and unemployment insurance related to government mandated social welfare programs, as well as the annuity scheme established. All these post-employment benefits are defined contribution plans, under which, the Group makes fixed contributions into a separate fund and will have no legal or constructive obligation to make further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee services in the current and prior periods.

Contributions to the basic pensions and unemployment insurance plan are recognized in the consolidated statements of comprehensive income for the period in which the related payment obligation is incurred.

The employees of the Bank participate in an annuity scheme established by the Bank (the "Annuity Scheme"). The Bank pays annuity contributions with reference to employees' salaries, and such contributions are expensed in the consolidated statements of comprehensive income when incurred. The Bank has no further obligation if the Annuity Scheme does not have sufficient assets for the payment of any retirement benefits to employees funded by the Annuity Scheme.

**2.10 Taxation**

***Current and deferred income tax***

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statements of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Deferred tax assets and liabilities are not recognized for temporary difference related to goodwill or the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither taxable profit nor accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that the temporary difference will not reverse in the foreseeable future or it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Current and deferred tax is recognized in the consolidated income statement, except when it relates to items that are recognized in other comprehensive income or directly in equity, in which case the current and deferred tax is also recognized in other comprehensive income or directly in equity, respectively.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities, when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

***Value-added tax ("VAT")***

The Group's interest income, fee and commission income, trading gain on financial products and insurance premium income are presented net of their respective VAT in the consolidated financial statements.

**2.11 Precious metals**

Precious metal refers to gold. Precious metals that are not related to the Group's trading activities are initially measured at acquisition cost and subsequently measured at the lower of cost and net realizable value. Precious metals that are related to the Group's trading activities are initially recognized at fair value, with changes in fair value arising from re-measurement recognized directly in the consolidated statements of comprehensive income in the period in which they arise.

**2.12 Financial instruments**

2.12.1 Initial recognition, classification and measurement of financial instruments

A financial asset or a financial liability is recognized when the Group becomes a party to the contractual provisions of the instrument.

Regular way purchases and sales of financial assets are recognized on trade-date, the date on which the Group commits to purchase or sell the asset.

At initial recognition, the Group measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss.

*(1) Financial assets*

Financial assets are classified in the following measurement categories based on the Group's business model for managing the asset and the cash flow characteristics of the assets:

(i) AC;

(ii) FVOCI; or

(iii) FVTPL

The business model reflects how the Group manages the assets in order to generate cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of "other" business model and measured at FVTPL. Factors considered by the Group in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether the financial instruments' cash flows represent solely payments of principal and interest ("SPPI"). In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are SPPI.

The classification requirements for debt instruments and equity instruments are described as below:

Debt Instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds. Classification and measurement of debt instruments depend on the Group's business models for managing the asset and the cash flow characteristics of asset.

Based on these factors, the Group classifies its debt instruments into one of the following three measurement categories:

(i) AC: Assets that are held for collection of contractual cash flows where those cash flows represent SPPI, and that are not designated at FVTPL, are measured at amortized cost.

(ii) FVOCI: Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent SPPI, and that are not designated at FVTPL, are measured at FVOCI.

(iii) FVTPL: Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVTPL.

The Group may also irrevocably designate financial assets at FVTPL if doing so significantly reduces or eliminates a mismatch created by assets and liabilities being measured on different bases.

*Equity instruments*

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets.

The Group subsequently measures all equity instruments at FVTPL, except where the Group's management has elected, at initial recognition, to irrevocably designate an equity instrument at FVOCI.

*(2) Financial liabilities*

The Group's financial liabilities are classified into financial liabilities at FVTPL and other financial liabilities carried at amortized cost on initial recognition. Financial liabilities at FVTPL is applied to derivatives and financial liabilities held for trading.

Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition, whereby a financial liability is recognized for the consideration received for the transfer. In subsequent periods, the Group recognizes any expenses incurred on the financial liability.

2.12.2 Reclassification of financial assets

When the Group changes the business model for managing its financial assets, it shall reclassify all affected financial assets, and apply the reclassification prospectively from the reclassification date. The Group does not restate any previously recognized gains, losses (including impairment gains or losses) or interest. Reclassification date is the first day of the first reporting period following the change in business model that results in the Group reclassifying financial assets.

2.12.3 Determination of fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique.

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market prices. This includes listed equity securities and quoted debt instruments on major exchanges.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. Indications that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

For financial instruments not traded in active markets, fair value is determined using appropriate valuation techniques. Valuation techniques include the use of recent transaction prices, discounted cash flow analysis, option pricing models and others commonly used by market participants. These valuation techniques include the use of observable and/or unobservable inputs.

2.12.4 Subsequent measurement of financial instruments

Subsequent measurement of financial instruments depends on their classification:

*(1) Amortized cost*

The amortized cost is the amount at which the financial asset or financial liability is measured at initial recognition: (i) minus the principal repayments; (ii) plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount; (iii) for financial assets, adjusted for any loss allowance.

Interest income and interest expenses from these financial assets is included in "Interest income" and "interest expenses" using the effective interest rate method.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortized cost before any impairment allowance) or to the amortized cost of a financial liability. The calculation does not consider ECL and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate. For purchased or originated credit-impaired ("POCI") financial assets, the Group calculates the credit-adjusted effective interest rate, which is calculated based on the amortized cost of the financial asset instead of its gross carrying amount and incorporates the impact of expected credit losses in estimated future cash flows.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets and is included in "Interest income", except for:

(i) POCI financial assets, whose interest income is calculated, since initial recognition, by applying the credit-adjusted effective interest rate to their amortized cost; and

(ii) financial assets that are not POCI but have subsequently become credit-impaired, whose interest income is calculated by applying the effective interest rate to their amortized cost (i.e.net of the expected credit loss provision). If, in a subsequent period, the financial assets improve their qualities so that they are no longer credit-impaired and the improvement in credit quality is related objectively to a certain event occurring after the application of the above-mentioned rules, then the interest income is calculated by applying the effective interest rate to their gross carrying amount.

*(2) Fair value through other comprehensive income*

*Debt instruments*

Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortized cost which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss. Interest income from these financial assets is included in "interest income" using the effective interest rate method.

*Equity instruments*

The equity instrument investments that are not held for trading are designated as FVOCI. When this election is used, fair value gains and losses are recognized in OCI and are not subsequently reclassified to profit or loss, including on disposal. Dividends, when representing a return on such investments, continue to be recognized in profit or loss as investment income when the Group's right to receive payments is established.

*(3) Financial assets at fair value through profit or loss*

*Debt instruments*

A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented in the profit or loss statement within "Net trading (losses)/gains " in the period in which it arises, unless it arises from Debt instruments that were designated at fair value or which are not held for trading, in which case they are presented separated in "Net (losses)/gains on financial investments ".

*(4) Financial liabilities at fair value through profit or loss*

Financial liabilities at FVTPL are measured at fair value with all gains or losses recognized in the profit or loss.

2.12.5 Impairment of financial instruments

The Group assesses on a forward-looking basis the ECL associated with its debt instrument assets carried at amortized cost and FVOCI and exposures arising from some loan commitments and financial guarantee contracts.

ECL refer to the weighted average of credit losses with the respective risks of a default occurring as the weights. Credit loss refers to the difference between all contractual cash flows discounted by the original effective interest rate that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, i.e., the present value of all cash shortfalls (among them, for the purchased or originated credit-impaired financial assets, discount shall be based on the credit-adjusted effective interest rate of the financial assets).

The Group measures ECL of a financial instrument in a way that reflects:

(i) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;

(ii) the time value of money;

(iii) reasonable and supportable information that is available without undue cost or effort at the balance sheet date about past events, current conditions and forecasts of future economic conditions.

The description of inputs, assumptions and estimation techniques used in measuring the ECL is presented in Note 42.1.

The Group applies the impairment requirements for the recognition and measurement of a loss allowance for debt instruments that are measured at FVOCI. The loss allowance is recognized in other comprehensive income and the impairment loss is recognized in profit or loss, and it should not reduce the carrying amount of the financial asset in the statement of financial position.

If the Group has measured the loss allowance for a financial instrument other than POCI at an amount equal to lifetime expected credit losses in the previous reporting period, but determines at the current reporting date that the credit risk on the financial instruments has increased significantly since initial recognition is no longer met, the Group measures the loss allowance at an amount equal to 12-month expected credit losses at the current reporting date and the amount of expected credit losses reversal is recognized in profit or loss. For POCI financial assets, at the reporting date, the Group only recognizes the cumulative changes in lifetime expected credit losses since initial recognition.

2.12.6 Modification of loans

The Group will renegotiate or modify customer loan contracts due to certain special circumstances at times, which will in turn lead to changes in contract cash flows. In such cases, the Group will assess if there is a substantial change in the modified contractual terms. In making the assessment, factors need to be considered include:

- Where a modification of contract occurs when the borrower is suffering from financial difficulties, whether the modification only reduces the contract cash flows to the amount that is expected to be repaid by the borrower;
- If there's any newly added substantial term, for example, a term in regard to right to profits/equity returns is newly added, resulting in a substantial change in the risk characteristics of the contract;
- The loan term is significantly extended in the absence of financial difficulties for the borrower;
- Material change happens to the loan interest rate;
- Change happens to the loan currency;
- New collateral and other credit enhancements dramatically change the level of loan credit risk.

If the terms are substantially different, the Group derecognizes the original financial asset and recognizes a "new" asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Group also assesses whether the new financial asset recognized is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognized in profit or loss as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Group recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognizes a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate (or credit-adjusted effective interest rate for POCI financial assets).

2.12.7 Derecognition

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognize the asset to the extent of its continuing involvement and recognizes an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and, where applicable, the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in the consolidated income statement.

Financial liabilities are derecognized when the related obligation is discharged, is canceled or expires. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in the consolidated income statement.

2.12.8 Offsetting of financial assets and liabilities

Financial assets and liabilities are offset and the net amount presented in the consolidated statement of financial position when both of the following conditions are satisfied: (i) The Group has the legal right to offset the recognized amount, and the legal right is enforceable; (ii) the Group intends either to settle on a net basis, or to realize the financial asset and settle the financial liability simultaneously. The right of offset shall not depend on future events. In ordinary course of business between the Group and all the counterparties, or when breach of contract, insolvency or bankruptcy occurs, the Group has the right to execute such legal right.

2.12.9 Repurchase agreements and resale agreement

Financial assets transferred as collateral in connection with repurchase agreements, involving fixed repurchase dates and prices, are not derecognized. They continue to be recorded as investments classified as financial investments at amortized cost or financial investments at fair value through other comprehensive income as appropriate. The corresponding liability is included in financial assets sold under repurchase agreements. The items which are not derecognized are presented in Note 39 — Contingent liabilities and commitments — Collateral.

Consideration paid for financial assets held under agreements to resell are recorded as Financial assets held under resale agreements, the related collateral accepted is not recognized in the consolidated financial statements (Note 39 — Contingent liabilities and commitments — Collateral).

The difference between the purchase and sale price is recognized as interest expense or income in the consolidated statements of comprehensive income over the term of the agreements using the effective interest method.

2.12.10 Financial guarantee contracts and loan commitments

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due, in accordance with the terms of a debt instrument.

Financial guarantees are initially recognized at fair value on the date the guarantee was given. Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of the initial amount, less amortization of guarantee fees, and the expected credit loss provision required to settle the guarantee. Any increase in the liability relating to guarantees is taken to the consolidated income statement.

The impairment allowance of loan commitments provided by the Group is measured using ECL models. The Group has not provided any commitment to provide loans at a below-market interest rate, or that can be settled net in cash or by delivering or issuing another financial instrument.

For loan commitments and financial guarantee contracts, the loss allowance is recognized as a provision. However, for contracts that include both a loan and an undrawn commitment and the Group cannot separately identify the expected credit losses on the undrawn commitment component from those on the loan component, the expected credit losses on the undrawn commitment are recognized together with the loss allowance for the loan. To the extent that the combined expected credit losses exceed the gross carrying amount of the loan, the expected credit losses are recognized as a provision.

**2.13 Property and equipment**

Property and equipment is asset held by the Group for the conduct of business and is expected to be used for more than one year. Construction-in-progress, an item of property, represents property under construction and is transferred to property when ready for its intended use.

(a) Cost

Property and equipment is stated at cost upon initial recognition. Costs of a purchased property and equipment comprise purchase price, related taxes, and any directly attributable expenditures for bringing the asset to working condition for its intended use. Costs of a self-constructed property and equipment comprise construction materials, direct labor costs and those expenditures necessarily incurred for bringing the asset to working condition for its intended use.

Subsequent to initial recognition, property and equipment is stated at cost less accumulated depreciation and impairment losses.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property, plant and equipment.

The Group recognizes in the carrying amount of an item of property and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognized in the consolidated statement of profit or loss as an expense when incurred.

(b) Depreciation

Depreciation is calculated to write off the cost, less residual value if applicable, of property and equipment and is charged to profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment.

The estimated useful lives and depreciation rate (amortization rate) are as follows:

| Category of assets | Estimated useful lives | Depreciation rates |
|---|---|---|
| Buildings | 20 years | 5.00% |
| Motor vehicles | 4 years | 25.00% |
| Machinery and equipment | 10 years | 10.00% |
| Electronic equipment | 3 years | 33.33% |
| Other equipment | 5 years | 20.00% |
| Decoration and renovation | 5 years | 20.00% |

The residual value and useful lives of assets are reviewed, and adjusted if appropriate, as of each reporting date.

(c) Disposal and retirement

Gains or losses arising from the disposal or retirement of property and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the consolidated statement of profit or loss on the date of disposal or retirement.

(d) Construction in progress

Properties in the course of construction for supply of services or administrative purposes are carried at cost, as construction in progress, less any impairment loss. Construction in progress is reclassified to the appropriate category of property and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property and equipment, commences when the assets are ready for their intended use.

### 2.14 Intangible assets

Intangible assets are initially recognized at cost. The cost less estimated net residual values (if any) of the intangible assets is amortized on a straight-line basis over their useful lives, and charged to profit or loss. Impaired intangible assets are amortized net of accumulated impairment losses. The useful lives of the Group's intangible assets are 3 years. The amortization rate of the Group's intangible assets is 33%. The residual value and useful lives of assets are reviewed, and adjusted if appropriate, as of each reporting date.

Intangible assets which are not yet available for use should be estimated at least at each financial year-end, even if there was no indication that the assets were impaired.

### 2.15 Investment properties

Investment property is property held to earn rental income or for capital appreciation, or both.

Investment properties are initially measured at cost, including costs that are directly attributable to the properties at the time of acquisition. The Bank adopts the cost model for subsequent measurement of investment properties. The type of assets, estimated useful lives and depreciation rate (amortization rate) are as follows:

| Category of assets | Estimated useful lives | Depreciation rates |
|---|---|---|
| Buildings | 20 years | 5.00% |
| Land use rights | 20/50 years | 5.00%/2.00% |

As at the balance sheet date, the Group reviews investment properties item by item. If the carrying amount of an asset is higher than the estimated recoverable amount, the carrying amount is reduced to its recoverable amount. The recoverable amount is recognized at the higher of the fair value less cost of sales and value in use.

### 2.16 Foreclosed assets

Foreclosed assets are initially recognized at fair value and subsequently measured at the lower of their carrying amount and fair value, less costs to sell, at the end of each reporting period. When the fair value, less costs to sell, is lower than a foreclosed asset's carrying amount, an impairment loss is recognized in the consolidated income statement.

Any gain or loss arising on the disposal of the foreclosed asset is included in the consolidated statements of comprehensive income in the period in which the item is disposed.

The Group disposes of foreclosed assets through various means. In principle, foreclosed assets should not be transferred for own use, but, in the event that they are needed for the Group's own business or management purposes, they are transferred at their net carrying amounts and managed as newly acquired property and equipment.

### 2.17 Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized in the consolidated income statement.

**2.18 Dividend distribution**

Dividend distribution to the Bank's equity holders is recognized as a liability in the Group's and the Bank's financial statements in the period in which the dividends are approved by the equity holders in the annual general meeting of the Bank.

**2.19 Provisions**

Provisions are recognized when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

**2.20 Contingent liabilities**

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognized because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognized, but disclosed, unless the possibility of an outflow of resources embodying economic benefits is probable.

**2.21 Cash and cash equivalents**

Cash and cash equivalents are short-term and highly liquid assets, which are readily convertible into known amounts of cash and subject to an insignificant risk of changes in value. Cash and cash equivalents include cash and assets with original maturity of three months or less under cash and balances with central banks, deposits with banks and other financial institutions, placements with and loans to banks and other financial institutions and financial assets held under resale agreements.

**2.22 Lease**

Lease refers to the contract that the lessor transfers the rights of use to the lessee in a certain period of time.

As a lessee

At the commencement date, the Group shall recognize the right-of-use asset and the lease liability at the present value of the lease payments that are not paid at that date. Lease payments include fixed payments and proceeds paid when the lessee is reasonably certain to exercise the option to purchase or termination options. Variable rent calculated at a certain proportion of the sales amount is not included in the lease payments and is recognized in profit or loss for the current period when it is incurred.

The Group's right-of-use assets include buildings held under lease. Right-of-use assets are initially measured at cost, which includes the initial measurement of lease liabilities, lease payments paid at or before the commencement date, initial direct cost, etc., less the any lease incentives. When the Group can reasonably determine that the ownership of a leased asset will be transferred at the end of the lease term, it is depreciated over its estimated useful life; otherwise, the leased asset is depreciated over the shorter of the lease term and its estimated useful life. The carrying amounts of property and equipment are reduced to the recoverable amounts when the recoverable amounts are below the carrying amounts of the right-of-use asset.

For a short-term lease that has a lease term of 12 months or less, the Group select not to recognize right-of-use assets and lease liabilities and the relevant rental expenses are recognized in profit or loss for the current period or relevant cost of assets on a straight-line basis over each period of the lease.

As a lessor

The Group leases out self-owned buildings, machinery and equipment and motor vehicles, the rental income from an operating lease is recognized on a straight-line basis over the period of the lease. Variable rent calculated at a certain proportion of the sales amount is recognized in rental income when it is incurred.

**2.23 Land use rights**

The Group recognizes land use rights as right-of-use assets. Land use rights are initially measured at cost and amortized on a straight-line basis over their statutory useful lives. The cost of land use rights is amortized on a straight-line basis over the granted using period and is recognized in profit or loss for the current period. For land use rights, when charging the depreciation, the accumulated amount of provision for impairment losses will be deducted.

**2.24 Fiduciary activities**

The Group acts as a custodian, trustee and in other fiduciary capacities to safeguard assets for customers in accordance with custody agreements between the Group and securities investment funds, social security funds, insurance companies, trust companies, qualified foreign institutional investors, annuity schemes and other institutions and individuals. The Group receives fees in return for its services provided under the custody agreements and does not have any interest in the economic risks and rewards related to assets under custody. Therefore, assets under custody are not recognized in the Group's consolidated statement of financial position.

The Group conducts entrusted lending arrangements for its customers. Under the terms of entrusted loan arrangements, the Group grants loans to borrowers, as an intermediary, according to the instruction of its customers who are the lenders providing funds for the entrusted loans. The Group is responsible for the arrangement and collection of the entrusted loans and receives a commission for the services rendered. As the Group does not assume the economic risks and rewards of the entrusted loans and the funding for the corresponding entrusted funds, they are not recognized as assets and liabilities of the Group.

**2.25 Related parties**

If a party has the power to control, jointly control or exercise significant influence over another party in making financial and operating decisions, they are regarded as related parties. Two or more parties are also regarded as related parties if they are subject to control or joint control from the same party.

**2.26 Operation segments**

An operating segment is a component of the Group that satisfies all of the following conditions: (1) the component is able to earn revenues and incur expenses from its ordinary activities; (2) whose operating results are regularly reviewed by the Group's management to make decisions about resources to be allocated to the segment and to assess its performance, and (3) for which the information on financial position, operating results and cash flows is available to the Group. If two or more operating segments have similar economic characteristics and satisfy certain conditions, they are aggregated into one single operating segment.

Operating segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision-maker for the purposes of allocating resources and assessing performance. The Group considers the business from different perspectives including products and services and geographic areas. The operating segments that meet the specified criteria have been aggregated, and the operating segments that meet quantitative thresholds have been reported separately.

Inter-segment revenues are measured on the basis of actual transaction price for such transactions for segment reporting, and segment accounting policies are consistent with those for the consolidated financial statements.

**3 Critical accounting estimates and judgement**

Preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses. The estimates and judgments are based on historical experience and other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and judgments are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

(1) Measurement of expected credit loss

The measurement of the expected credit loss allowance for financial assets measured at amortized cost and FVOCI and for exposures arising from some loan commitments and financial guarantee contracts, is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behavior (the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in Note 42.1 Credit risk.

It requires a lot of significant judgments to measure ECL under relevant accounting standards, such as:

- Segmentation of business operations sharing similar credit risk characteristics, selection of appropriate models and determination of relevant key parameters;
- Criteria for determining a significant increase in credit risk, default and credit impairments;
- The use of economic scenario, economic indicator and weight for forward-looking measurement;
- The management's accumulated adjustment for significant uncertainties that are not included in the model; and
- Future cash flows forecast on corporate loans and debt investments at stage 3.

Detailed information on the above judgments and estimates is set out in Note 42.1.

(2) Goodwill impairment

Goodwill impairment reviews are undertaken annually or more frequently, and it is also needed if events or changes indicate a potential impairment. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash generating unit (the "CGU"). The Group forecasts future cash flow of the CGU, and applies appropriate discount rate for the calculation of the present value of future cash flow.

(3) Fair value of financial instruments

The Group uses valuation techniques to estimate the fair value of financial instruments which are not quoted in an active market. These valuation techniques include the use of recent transaction prices of the same or similar instruments, discounted cash flow analysis and generally accepted pricing models. To the extent practical, market observable inputs and data, such as interest rate yield curves, are used when estimating fair value through a valuation technique. Where market observable inputs are not available, they are estimated using assumptions that are calibrated as closely as possible to market observable data. However, areas such as the credit risk of the Group and the counterparty, liquidity, volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the estimated fair value of financial instruments.

(4) Taxes

There are certain transactions and activities in the ordinary course of the Group's business for which the ultimate tax effect is uncertain. The Group made certain estimation and judgement for items of uncertainty in the application of tax legislations, taking into account existing tax legislation and past practice of tax authorities. Where the final tax outcome of these matters is different from the amounts that were initially estimated, based on management's assessment, such differences will affect the current income tax and deferred income tax during the period in which such a determination is made.

(5) Consolidation of structured entities

Where the Group acts as asset manager of or investor in structured entities, the Group makes significant judgment on whether the Group controls and should consolidate these structured entities. When performing this assessment, the Group assesses the Group's contractual rights and obligations in light of the transaction structures, and evaluates the Group's power over the structured entities, performs analysis and tests on the variable returns from the structured entities, including but not limited to commission income and asset management fees earned as the asset manager, the retention of residual income, and, if any, the liquidity and other support provided to the structured entities. The Group also assesses whether it acts as a principal or an agent through analysis of the scope of its decision-making authority over the structured entities, the remuneration to which it is entitled for asset management services, the Group's exposure to variability of returns from its other interests in the structured entities, and the rights held by other parties in the structured entities.

## 4 Net interest income

| | Years ended December 31, | | | Three months ended March 31, | |
|---|---|---|---|---|---|
| | **2018** | **2019** | **2020** | **2020** | **2021** |
| | | | | **(Unaudited)** | |
| **Interest income** | | | | | |
| Balances with central banks | 558,836 | 462,626 | 431,142 | 113,283 | 117,858 |
| Financial assets held under resale agreements and deposits and placements with banks and other financial institutions | 433,964 | 484,313 | 377,334 | 104,440 | 79,531 |
| Loans and advances to customers | 8,598,429 | 10,149,553 | 12,728,284 | 3,028,549 | 3,510,891 |
| Financial investments | 6,523,443 | 6,256,619 | 5,980,844 | 1,511,360 | 1,596,023 |
| **Sub-total** | 16,114,672 | 17,353,111 | 19,517,604 | 4,757,632 | 5,304,303 |
| **Interest expense** | | | | | |
| Borrowings from central banks | (9,953) | (40,509) | (322,477) | (26,584) | (222,579) |
| Financial assets sold under repurchase agreements and deposits and placements from banks and other financial institutions | (2,314,378) | (1,470,218) | (1,002,156) | (264,434) | (288,094) |
| Deposits from customers | (4,457,754) | (5,125,404) | (6,465,231) | (1,428,064) | (1,797,787) |
| Debt securities issued | (1,990,457) | (1,891,196) | (1,778,187) | (506,837) | (411,126) |
| Lease liabilities | (21,734) | (24,497) | (17,174) | (4,504) | (4,369) |
| **Sub-total** | (8,794,276) | (8,551,824) | (9,585,225) | (2,230,423) | (2,723,955) |
| **Net interest income** | 7,320,396 | 8,801,287 | 9,932,379 | 2,527,209 | 2,580,348 |

**5 Net fee and commission income**

| | Years ended December 31, | | | Three months ended March 31, | |
|---|---|---|---|---|---|
| | **2018** | **2019** | **2020** | **2020** | **2021** |
| | | | | **(Unaudited)** | |
| **Fee and commission income** | | | | | |
| Bank cards[(a)] | 477,915 | 447,802 | 350,439 | 104,990 | 75,856 |
| Wealth management agency services | 311,576 | 459,306 | 328,722 | 55,031 | 65,915 |
| Custodian and other fiduciary | 189,187 | 184,211 | 187,656 | 31,876 | 57,748 |
| Settlement and clearing services | 39,450 | 44,605 | 56,608 | 5,304 | 7,793 |
| Others | 34,596 | 48,136 | 71,650 | 9,945 | 18,804 |
| **Sub-total** | 1,052,724 | 1,184,060 | 995,075 | 207,146 | 226,116 |
| **Fee and commission expense[(a)]** | (101,160) | (129,287) | (54,696) | (14,873) | (32,699) |
| **Net fee and commission income** | 951,564 | 1,054,773 | 940,379 | 192,273 | 193,417 |

(a) In accordance with the requirements pursuant to the Notice on "Strict Implementation of Accounting Standards for Enterprises and Effective Enhancement of 2020 Annual Reports Compilation" issued by the Ministry of Finance ("MOF"), State-owned Assets Supervision and Administration Commission of the State Council, the CBIRC and the China Securities Regulatory Commission (the "CSRC") on January 27, 2021, the Group recognized income and expenses from relevant credit business as interest income consistently for the years ended December 31, 2018, 2019 and 2020 and the three months ended March 31, 2020 and March 31, 2021.

**6 Net trading gains**

| | Years ended December 31, | | | Three months ended March 31, | |
|---|---|---|---|---|---|
| | **2018** | **2019** | **2020** | **2020** | **2021** |
| | | | | **(Unaudited)** | |
| Net gains on financial assets held for trading | 1,158,540 | 1,045,680 | 779,059 | 333,861 | 265,194 |
| Exchange gains | 64,080 | 86,726 | 104,490 | 26,532 | 42,571 |
| Gains/(losses) on precious metal, net | 389 | 867 | (2,267) | 869 | 452 |
| **Total** | 1,223,009 | 1,133,273 | 881,282 | 361,262 | 308,217 |

## 7 Net gains on financial investments

| | Years ended December 31, | | | Three months ended March 31, | |
|---|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2020 | 2021 |
| | | | | (Unaudited) | |
| Net (losses)/gains on debt instrument investments at fair value through other comprehensive income | (136,261) | 278,080 | 384,266 | 29,508 | 55,380 |
| Net gains/(losses) on other financial assets at fair value through profit or loss | 185,099 | 141,322 | (239,737) | 28,092 | 280 |
| Net (losses)/gains on derecognition of financial assets measured at amortized cost | (2) | (2) | 3,057 | — | 4 |
| Dividend income from equity instruments | 33,182 | 43,474 | 34,317 | — | 1,800 |
| **Total** | 82,018 | 462,874 | 181,903 | 57,600 | 57,464 |

## 8 Other operating Income

| | Years ended December 31, | | | Three months ended March 31, | |
|---|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2020 | 2021 |
| | | | | (Unaudited) | |
| Gains on disposal of property, equipment and other long term assets | 148,079 | 296,420 | 73,453 | 25,929 | 5,212 |
| Rental income | 31,633 | 33,884 | 24,381 | 4,044 | 6,883 |
| Government grants[(a)] | 16,488 | 9,068 | 1,800 | 1,211 | 2,686 |
| Others | 4,400 | 3,648 | 11,470 | 3,532 | 1,769 |
| **Total** | 200,600 | 343,020 | 111,104 | 34,716 | 16,550 |

(a) Government grants comprise targeted subsidies from the MOF and Municipal Governments aiming to enhance local economic growth and encourage the establishment of rural banks.

## 9 Operating expenses

| | Years ended December 31, | | | Three months ended March 31, | |
|---|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2020 | 2021 |
| | | | | (Unaudited) | |
| Staff costs (including emoluments of directors and supervisors) (Note 10) | 2,043,495 | 2,402,212 | 2,718,786 | 720,449 | 600,171 |
| Taxes and surcharges | 118,002 | 134,263 | 128,287 | 29,048 | 28,085 |
| General and administrative expenses | 518,224 | 615,528 | 696,320 | 147,203 | 139,994 |
| Depreciation and amortization | 355,164 | 320,228 | 351,126 | 108,908 | 124,595 |
| Auditors' remuneration | 2,742 | 3,611 | 3,719 | 194 | 751 |
| — Audit service | 1,693 | 2,576 | 2,842 | — | — |
| — Non-audit service | 1,049 | 1,035 | 877 | 194 | 751 |
| Others | 11,702 | 59,915 | 26,648 | 2,463 | 5,387 |
| **Total** | 3,049,329 | 3,535,757 | 3,924,886 | 1,008,265 | 898,983 |

## 10 Staff costs (including emoluments of directors and supervisors)

| | Years ended December 31, | | | Three months ended March 31, | |
|---|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2020 | 2021 |
| | | | | (Unaudited) | |
| Salaries, bonuses, allowances and subsidies | 1,520,545 | 1,752,997 | 2,005,105 | 560,665 | 443,616 |
| Pension and other social benefits | 342,088 | 434,223 | 475,702 | 104,658 | 123,700 |
| Enterprise annuity scheme | 115,444 | 139,040 | 152,383 | 35,228 | 23,951 |
| Others | 65,418 | 75,952 | 85,596 | 19,898 | 8,904 |
| **Total** | 2,043,495 | 2,402,212 | 2,718,786 | 720,449 | 600,171 |

**11 Emoluments of directors, supervisors and the highest-paid staff**

(a) Emoluments of directors and supervisors are as follows:

| | Year ended December 31, 2018 | | | | | |
|---|---|---|---|---|---|---|
| **Name** | **Fees** | **Salaries** | **Discretionary bonuses** | **Subsidies and physical benefits** | **Pension plan contributions** | **Total** |
| **Chairman** | | | | | | |
| Wang Yaoqiu | — | 1,189 | 3,445 | 75 | 80 | 4,789 |
| **Executive directors** | | | | | | |
| Ye Yunfei | — | 689 | 2,141 | 75 | 80 | 2,985 |
| **Non-executive directors** | | | | | | |
| Lai Chun Tung | 230 | — | — | — | — | 230 |
| Wang Junyang | 230 | — | — | — | — | 230 |
| Cai Guowei | 230 | — | — | — | — | 230 |
| Ye Jinquan(1) | 115 | — | — | — | — | 115 |
| Chen Xipei(14) | 230 | — | — | — | — | 230 |
| Liang Peiguang(14) | 230 | — | — | — | — | 230 |
| Chen Haitao | 230 | — | — | — | — | 230 |
| **Independent directors** | | | | | | |
| He Jingqing(14) | 230 | — | — | — | — | 230 |
| Liang Zhirui(14) | 230 | — | — | — | — | 230 |
| Luo Hansheng(14) | 230 | — | — | — | — | 230 |
| Huang Xiaojuan(14) | 230 | — | — | — | — | 230 |
| Liang Yuxiong(14) | 230 | — | — | — | — | 230 |
| **Supervisors** | | | | | | |
| Chen Sheng(3) | — | 168 | 394 | 33 | 34 | 629 |
| Cen Yongkang(16) | — | 453 | 1,151 | 74 | 80 | 1,758 |
| Chen Liangzhuo(16) | — | 433 | 1,115 | 73 | 80 | 1,701 |
| Mo Dongyi(2) | — | 435 | 928 | 71 | 75 | 1,509 |
| Lu Chaoping | 230 | — | — | — | — | 230 |
| Zhou Qingzong(16) | 230 | — | — | — | — | 230 |
| Zhang Xueqin(15) | 230 | — | — | — | — | 230 |
| Chen Wenjie(16) | 230 | — | — | — | — | 230 |
| Liu Jianfeng(16) | 230 | — | — | — | — | 230 |
| **Executive directors who resigned** | | | | | | |
| Liu Xiaodong(4) | — | 959 | 2,805 | 56 | 60 | 3,880 |
| Xiao Guang(5) | — | 1,074 | 3,141 | 75 | 80 | 4,370 |
| **Supervisors who resigned** | | | | | | |
| Zhong Guobo(6) | — | 565 | 2,043 | 76 | 80 | 2,764 |
| Chen Ruiqiang(7) | — | 731 | 2,159 | 59 | 63 | 3,012 |
| **Total** | 3,795 | 6,696 | 19,322 | 667 | 712 | 31,192 |

| | Year ended December 31, 2019 | | | | | |
|---|---|---|---|---|---|---|
| Name | Fees | Salaries | Discretionary bonuses | Subsidies and physical benefits | Pension plan contributions | Total |
| **Chairman** | | | | | | |
| Wang Yaoqiu | — | 2,248 | 2,477 | 81 | 83 | 4,889 |
| **Executive directors** | | | | | | |
| Fu Qiang(9) | — | 1,479 | 1,983 | 81 | 83 | 3,626 |
| Ye Jianguang(8) | — | 1,855 | 2,303 | 82 | 83 | 4,323 |
| Chen Wei(10) | — | 1,855 | 2,089 | 81 | 83 | 4,108 |
| Ye Yunfei | — | 1,397 | 1,359 | 81 | 83 | 2,920 |
| **Non-executive directors** | | | | | | |
| Lai Chun Tung | 230 | — | — | — | — | 230 |
| Wang Junyang | 230 | — | — | — | — | 230 |
| Cai Guowei | 230 | — | — | — | — | 230 |
| Ye Jinquan(1) | 230 | — | — | — | — | 230 |
| Chen Haitao | 230 | — | — | — | — | 230 |
| Zhang Qingxiang(11) | 19 | — | — | — | — | 19 |
| Chen Weiliang(11) | 19 | — | — | — | — | 19 |
| **Independent directors** | | | | | | |
| Yip Tai Him(12) | 173 | — | — | — | — | 173 |
| Xu Zhi(11) | 19 | — | — | — | — | 19 |
| Shi Wenfeng(11) | 19 | — | — | — | — | 19 |
| Tan Fulong(11) | 19 | — | — | — | — | 19 |
| Liu Yuou(11) | 19 | — | — | — | — | 19 |
| Xu Tingting(11) | 19 | — | — | — | — | 19 |
| **Supervisors** | | | | | | |
| Chen Sheng(3) | — | 1,429 | 1,774 | 81 | 83 | 3,367 |
| Deng Yanwen(13) | — | 957 | 1,270 | 81 | 83 | 2,391 |
| Wu Lixin(13) | — | 607 | 1,066 | 75 | 83 | 1,831 |
| Liang Zhifeng(13) | — | 440 | 355 | 59 | 70 | 924 |
| Lu Chaoping | 230 | — | — | — | — | 230 |
| Wang Zhujin(11) | 48 | — | — | — | — | 48 |
| Liang Jiepeng(11) | 48 | — | — | — | — | 48 |
| Zou Zhibiao(11) | 48 | — | — | — | — | 48 |
| Wei Haiying(11) | 48 | — | — | — | — | 48 |
| Yang Biao(11) | 48 | — | — | — | — | 48 |
| Zhang Bangyong(11) | 48 | — | — | — | — | 48 |
| Mai Xiuhua(11) | 48 | — | — | — | — | 48 |
| **Non-executive directors who resigned** | | | | | | |
| Chen Xipei(14) | 192 | — | — | — | — | 192 |
| Liang Peiguang(14) | 192 | — | — | — | — | 192 |

| Name | Year ended December 31, 2019 | | | | | |
|---|---|---|---|---|---|---|
| | Fees | Salaries | Discretionary bonuses | Subsidies and physical benefits | Pension plan contributions | Total |
| **Independent directors who resigned** | | | | | | |
| He Jingqing(14) | 183 | — | — | — | — | 183 |
| Liang Zhirui(14) | 192 | — | — | — | — | 192 |
| Luo Hansheng(14) | 192 | — | — | — | — | 192 |
| Huang Xiaojuan(14) | 192 | — | — | — | — | 192 |
| Liang Yuxiong(14) | 192 | — | — | — | — | 192 |
| **Supervisors who resigned** | | | | | | |
| Cen Yongkang(16) | — | 694 | 932 | 78 | 83 | 1,787 |
| Chen Liangzhuo(16) | — | 989 | 1,277 | 79 | 83 | 2,428 |
| Mo Dongyi(2) | — | 985 | 1,354 | 80 | 80 | 2,499 |
| Zhou Qingzong(16) | 192 | — | — | — | — | 192 |
| Zhang Xueqin(15) | 173 | — | — | — | — | 173 |
| Chen Wenjie(16) | 192 | — | — | — | — | 192 |
| Liu Jianfeng(16) | 192 | — | — | — | — | 192 |
| **Total** | 4,106 | 14,935 | 18,239 | 939 | 980 | 39,199 |

| | Year ended December 31, 2020 | | | | | |
|---|---|---|---|---|---|---|
| Name | Fees | Salaries | Discretionary bonuses | Subsidies and physical benefits | Pension plan contributions | Total |
| **Chairman** | | | | | | |
| Wang Yaoqiu | — | 1,383 | 2,891 | 55 | 82 | 4,411 |
| **Executive directors** | — | — | — | — | — | — |
| Fu Qiang(9) | — | 1,383 | 2,897 | 55 | 82 | 4,417 |
| Ye Jianguang(8) | — | 1,135 | 2,166 | 56 | 82 | 3,439 |
| Chen Wei(10) | — | 1,135 | 2,166 | 55 | 82 | 3,438 |
| Ye Yunfei | — | 862 | 1,654 | 55 | 82 | 2,653 |
| **Non-executive directors** | | | | | | |
| Lai Chun Tung | 230 | — | — | — | — | 230 |
| Wang Junyang | 230 | — | — | — | — | 230 |
| Cai Guowei | 230 | — | — | — | — | 230 |
| Ye Jinquan(1) | 230 | — | — | — | — | 230 |
| Chen Haitao | 230 | — | — | — | — | 230 |
| Zhang Qingxiang(11) | 230 | — | — | — | — | 230 |
| Chen Weiliang(11) | 230 | — | — | — | — | 230 |
| **Independent directors** | | | | | | |
| Yip Tai Him(12) | 230 | — | — | — | — | 230 |
| Xu Zhi(11) | 230 | — | — | — | — | 230 |
| Shi Wenfeng(11) | 230 | — | — | — | — | 230 |
| Tan Fulong(11) | 230 | — | — | — | — | 230 |
| Liu Yuou(11) | 230 | — | — | — | — | 230 |
| Xu Tingting(11) | 230 | — | — | — | — | 230 |
| **Supervisors** | | | | | | |
| Chen Sheng(3) | — | 1,135 | 2,166 | 55 | 82 | 3,438 |
| Deng Yanwen(13) | — | 668 | 1,816 | 54 | 82 | 2,620 |
| Wu Lixin(13) | — | 508 | 1,347 | 53 | 82 | 1,990 |
| Liang Zhifeng(13) | — | 536 | 1,338 | 53 | 82 | 2,009 |
| Lu Chaoping | 230 | — | — | — | — | 230 |
| Wang Zhujin(11) | 230 | — | — | — | — | 230 |
| Liang Jiepeng(11) | 230 | — | — | — | — | 230 |
| Zou Zhibiao(11) | 230 | — | — | — | — | 230 |
| Wei Haiying(11) | 230 | — | — | — | — | 230 |
| Yang Biao(11) | 230 | — | — | — | — | 230 |
| Zhang Bangyong(11) | 230 | — | — | — | — | 230 |
| Mai Xiuhua(11) | 230 | — | — | — | — | 230 |
| **Total** | 4,830 | 8,745 | 18,441 | 491 | 738 | 33,245 |

| Name | Three months ended March 31, 2020 (Unaudited) Fees | Salaries | Discretionary bonuses | Subsidies and physical benefits | Pension plan contributions | Total |
|---|---|---|---|---|---|---|
| **Chairman** | | | | | | |
| Wang Yaoqiu | — | 346 | 1,025 | 18 | 21 | 1,410 |
| **Executive directors** | — | — | — | — | — | — |
| Fu Qiang(9) | — | 331 | 1,030 | 18 | 21 | 1,400 |
| Ye Jianguang(8) | — | 281 | 845 | 18 | 21 | 1,165 |
| Chen Wei(10) | — | 281 | 845 | 18 | 21 | 1,165 |
| Ye Yunfei | — | 201 | 644 | 18 | 21 | 884 |
| **Non-executive directors** | | | | | | |
| Lai Chun Tung | 58 | — | — | — | — | 58 |
| Wang Junyang | 58 | — | — | — | — | 58 |
| Cai Guowei | 58 | — | — | — | — | 58 |
| Ye Jinquan(1) | 58 | — | — | — | — | 58 |
| Chen Haitao | 58 | — | — | — | — | 58 |
| Zhang Qingxiang(11) | 58 | — | — | — | — | 58 |
| Chen Weiliang(11) | 58 | — | — | — | — | 58 |
| **Independent directors** | | | | | | |
| Yip Tai Him(12) | 58 | — | — | — | — | 58 |
| Xu Zhi(11) | 58 | — | — | — | — | 58 |
| Shi Wenfeng(11) | 58 | — | — | — | — | 58 |
| Tan Fulong(11) | 58 | — | — | — | — | 58 |
| Liu Yuou(11) | 58 | — | — | — | — | 58 |
| Xu Tingting(11) | 58 | — | — | — | — | 58 |
| **Supervisors** | | | | | | |
| Chen Sheng(3) | — | 281 | 845 | 18 | 21 | 1,165 |
| Deng Yanwen(13) | — | 167 | 1,322 | 18 | 21 | 1,528 |
| Wu Lixin(13) | — | 128 | 934 | 16 | 21 | 1,099 |
| Liang Zhifeng(13) | — | 134 | 958 | 16 | 21 | 1,129 |
| Lu Chaoping | 58 | — | — | — | — | 58 |
| Wang Zhujin(11) | 58 | — | — | — | — | 58 |
| Liang Jiepeng(11) | 58 | — | — | — | — | 58 |
| Zou Zhibiao(11) | 58 | — | — | — | — | 58 |
| Wei Haiying(11) | 58 | — | — | — | — | 58 |
| Yang Biao(11) | 58 | — | — | — | — | 58 |
| Zhang Bangyong(11) | 58 | — | — | — | — | 58 |
| Mai Xiuhua(11) | 58 | — | — | — | — | 58 |
| **Total** | 1,218 | 2,150 | 8,448 | 158 | 189 | 12,163 |

| Name | Fees | Salaries | Discretionary bonuses | Subsidies and physical benefits | Pension plan contributions | Total |
|---|---|---|---|---|---|---|
| | Three months ended March 31, 2021 | | | | | |
| **Chairman** | | | | | | |
| Wang Yaoqiu | — | 347 | 1,095 | 21 | 23 | 1,486 |
| **Executive directors** | — | — | — | — | — | — |
| Fu Qiang(9) | — | 347 | 1,095 | 21 | 23 | 1,486 |
| Ye Jianguang(8) | — | 284 | 899 | 21 | 23 | 1,227 |
| Chen Wei(10) | — | 284 | 899 | 21 | 23 | 1,227 |
| Ye Yunfei | — | 216 | 681 | 21 | 23 | 941 |
| **Non-executive directors** | | | | | | |
| Lai Chun Tung | 58 | — | — | — | — | 58 |
| Wang Junyang | 58 | — | — | — | — | 58 |
| Cai Guowei | 58 | — | — | — | — | 58 |
| Ye Jinquan(1) | 58 | — | — | — | — | 58 |
| Chen Haitao | 58 | — | — | — | — | 58 |
| Zhang Qingxiang(11) | 58 | — | — | — | — | 58 |
| Chen Weiliang(11) | 58 | — | — | — | — | 58 |
| **Independent directors** | | | | | | |
| Yip Tai Him(12) | 58 | — | — | — | — | 58 |
| Xu Zhi(11) | 58 | — | — | — | — | 58 |
| Shi Wenfeng(11) | 58 | — | — | — | — | 58 |
| Tan Fulong(11) | 58 | — | — | — | — | 58 |
| Liu Yuou(11) | 58 | — | — | — | — | 58 |
| Xu Tingting(11) | 58 | — | — | — | — | 58 |
| **Supervisors** | | | | | | |
| Chen Sheng(3) | — | 284 | 899 | 21 | 23 | 1,227 |
| Deng Yanwen(13) | — | 154 | 1,046 | 21 | 23 | 1,244 |
| Wu Lixin(13) | — | 135 | 457 | 19 | 23 | 634 |
| Liang Zhifeng(13) | — | 144 | 857 | 19 | 23 | 1,043 |
| Lu Chaoping | 58 | — | — | — | — | 58 |
| Wang Zhujin(11) | 58 | — | — | — | — | 58 |
| Liang Jiepeng(11) | 58 | — | — | — | — | 58 |
| Zou Zhibiao(11) | 58 | — | — | — | — | 58 |
| Wei Haiying(11) | 58 | — | — | — | — | 58 |
| Yang Biao(11) | 58 | — | — | — | — | 58 |
| Zhang Bangyong(11) | 58 | — | — | — | — | 58 |
| Mai Xiuhua(11) | 58 | — | — | — | — | 58 |
| **Total** | 1,218 | 2,195 | 7,928 | 185 | 207 | 11,733 |

(1) In the annual general meeting in 2017, Ye Jinquan was elected as director, and the qualification was approved in June 2018.

(2) Mo Dongyi served as supervisor since June 2018, and in October 2019, Mo Dongyi resigned as supervisor.

(3) Chen Sheng served as supervisor since September 2018.

(4) In September 2018, Liu Xiaodong resigned as executive director.

(5) In December 2018, Xiao Guang resigned as executive director.

(6) In February 2018, Zhong Guobo resigned as supervisor.

(7) In August 2018, Chen Ruiqiang resigned as supervisor.

(8) In the first interim meeting of shareholders in 2018, Ye Jianguang was elected as director, and the qualification was approved in March 2019.

(9) In the first interim meeting of shareholders in 2018, Fu Qiang was elected as director, and the qualification was approved in July 2019.

(10) In the first interim meeting of shareholders in 2019, Chen Wei was elected as director, and the qualification was approved in December 2019.

(11) In the first interim meeting of shareholders in 2019, Zhang Qingxiang and Chen Weiliang were elected as non-executive directors, Xu Zhi, Shi Wenfeng, Tan Fulong, Liu Yuou, and Xu Tingting were elected as independent directors, and the qualification was approved in December 2019; Wang Zhujin, Liang Jiepeng, Zou Zhibiao, Yang Biao, Mai Xiuhua, Wei Haiying and Zhang Bangyong were elected as supervisors in October 2019.

(12) In the annual general meeting in 2017, Yip Tai Him was elected as independent director, and the qualification was approved in March 2019.

(13) Deng Yanwen, Wu Lixin and Liang Zhifeng were elected as supervisors in October 2019.

(14) Chen Xipei and Liang Peiguang, ceased to be non-executive directors upon the expiry of their terms in October 2019; He Jingqing, Liang Zhirui, Luo Hansheng, Huang Xiaojuan, and Liang Yuxiong ceased to be independent directors upon expiry of their terms in October 2019.

(15) In September 2019, Zhang Xueqin resigned as supervisor.

(16) Cen Yongkang, Chen Liangzhuo, Chen Wenjie, Liu Jianfeng and Zhou Qingzong ceased to be supervisors upon expiry of their terms in October 2019.

(b) Five highest paid individuals:

The five highest paid individuals comprises directors, supervisor and non-director and non-supervisor as below:

| | **Years ended December 31,** | | | **Three months ended March 31,** | |
|---|---|---|---|---|---|
| | **2018** | **2019** | **2020** | **2020** | **2021** |
| | | | | **(Unaudited)** | |
| Directors | 3 | 3 | 4 | — | 2 |
| Supervisor | — | — | 1 | 1 | — |
| Non-director and non-supervisor[(i)] | 2 | 2 | 3 | 4 | 3 |
| **Total** | 5 | 5 | 8 | 5 | 5 |

(i) For the years ended December 31, 2018, 2019 and 2020 and the three months ended March 31, 2020 and 2021, the emoluments of the directors who are among the five highest paid individuals are reflected in the analysis presented above. Four individuals are tied for fifth place in 2020. The emoluments payable to the remaining individuals during the years ended December 31, 2018, 2019 and 2020 and the three months ended March 31, 2020 and 2021 are as follows:

| | Years ended December 31, | | | Three months ended March 31, | |
|---|---|---|---|---|---|
| | **2018** | **2019** | **2020** | **2020** | **2021** |
| | | | | **(Unaudited)** | |
| Salaries, subsidies and other benefits | 2,029 | 3,862 | 3,570 | 691 | 504 |
| Discretionary bonuses | 5,483 | 4,625 | 6,713 | 5,486 | 3,604 |
| Pension plan contributions | 160 | 166 | 246 | 82 | 62 |
| **Total** | 7,672 | 8,653 | 10,529 | 6,259 | 4,170 |

The emoluments payable to the remaining individuals during the years ended December 31, 2018, 2019 and 2020 and the three months ended March 31, 2020 and 2021 fell within the following band:

| | Years ended December 31, | | | Three months ended March 31, | |
|---|---|---|---|---|---|
| | **2018** | **2019** | **2020** | **2020** | **2021** |
| | | | | **(Unaudited)** | |
| HK$ 1,500,001 to HK$ 2,000,000 | — | — | — | 4 | 3 |
| HK$ 4,000,001 to HK$ 4,500,000 | 2 | — | 3 | — | — |
| HK$ 4,500,001 to HK$ 5,000,000 | — | 2 | — | — | — |

(c) Other benefits and interests of directors and supervisors

For the years ended December 31, 2018, 2019 and 2020, the Group:

— paid no emoluments to any director, supervisor, senior management or any of the five highest paid individuals as its bonus for joining, or compensation for termination.

— paid no retirement benefits to any director, supervisor, senior management or any of five highest paid individuals except for enterprise Annuity Scheme and Pension Scheme (Note 2.9 Employee benefits).

— paid no consideration to any third party for related services provided to the Group by directors or supervisors;

— no director or supervisor waived any emolument;

— directors or supervisors had no direct or indirect material interest in any material transactions, arrangements or contracts in relation to the Group's business.

The loans issued by the Group to its directors, supervisors or certain controlled body corporates and connected entities of the directors or supervisors and the balances were disclosed in Note 40. The Group provided no guarantee or security for the loans of any directors, supervisors or certain controlled body corporates and connected entities of the directors or supervisors.

## 12 Expected credit losses and asset losses

| | Years ended December 31, | | | Three months ended March 31, | |
|---|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2020 | 2021 |
| | | | | (Unaudited) | |
| Loans and advances to customers | | | | | |
| — Measured at amortized cost | 1,063,130 | 786,448 | 295,226 | 286,611 | 114,417 |
| — Measured at fair value through other comprehensive income | 5,287 | 3,895 | 3,589 | (82) | 2,216 |
| Financial investments | | | | | |
| — Measured at amortized cost | 29,448 | 11,875 | (5,064) | 2,692 | (9,352) |
| — Measured at fair value through other comprehensive income | 593,560 | 1,697,742 | 93,894 | 108,486 | 101,350 |
| Loan commitments and guarantee contracts | (1,031) | 6,669 | 5,463 | (1,080) | 38,581 |
| Financial assets held under resale agreements and deposits and placements with banks and other financial institutions | (6,118) | 11,024 | 7,381 | 4,898 | 15,315 |
| Other assets | 32,802 | 75,890 | 75,666 | 35,695 | 10,026 |
| Asset losses (Note 31(a)) | — | — | 2,298,180 | — | — |
| **Total** | 1,717,078 | 2,593,543 | 2,774,335 | 437,220 | 272,553 |

## 13 Income tax expense

| | Years ended December 31, | | | Three months ended March 31, | |
|---|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2020 | 2021 |
| | | | | (Unaudited) | |
| Current income tax | 685,676 | 1,188,475 | 971,354 | 170,998 | 247,409 |
| Deferred income tax (Note 24) | (104,754) | (357,950) | (654,562) | 35,467 | (6,470) |
| **Total** | 580,922 | 830,525 | 316,792 | 206,465 | 240,939 |

The actual amount of tax paid by the Group is different from the amount calculated based on the profit before tax of the Group and statutory tax rate applicable to the Group. The major adjustments are as follows:

| | Years ended December 31, | | | Three months ended March 31, | |
|---|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2020 | 2021 |
| | | | | (Unaudited) | |
| Profit before tax | 5,034,228 | 5,700,774 | 5,372,109 | 1,733,927 | 2,000,140 |
| Income tax calculated at statutory tax rate of 25% | 1,258,557 | 1,425,194 | 1,343,027 | 433,483 | 500,035 |
| Tax effect of income not taxable for tax purpose[(a)] | (700,664) | (752,169) | (1,106,803) | (236,810) | (265,288) |
| Share of profits of associates | (5,762) | (8,712) | (6,071) | (1,588) | (3,920) |
| Non-deductible expenses | 28,508 | 51,513 | 57,669 | 11,428 | 10,199 |
| Derecognition of previously recognized deferred tax assets | — | 114,823 | — | — | — |
| Effect of preferential tax rate applicable to a subsidiary[(b)] | (2,129) | (124) | (178) | (48) | (87) |
| Adjustments for current tax of prior periods | 2,412 | — | 29,148 | — | — |
| Income tax expense | 580,922 | 830,525 | 316,792 | 206,465 | 240,939 |

(a) The non-taxable income of the Group includes interest income from PRC treasury bonds, municipal government bonds and dividend income.

(b) From January 1, 2013 to December 31, 2030, the Group's subsidiary, Hezhou Babu Dongying County Bank Company Limited is entitled to a preferential income tax rate of 15%.

## 14 Basic and diluted earnings per share

(a) Basic earnings per share are calculated by dividing the net profit attributable to the shareholders of the Bank by the weighted average number of ordinary shares issued by the Bank during the period.

| | Years ended December 31, | | | Three months ended March 31, | |
|---|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2020 | 2021 |
| | | | | (Unaudited) | |
| Net profit attributable to the shareholders of the Bank (RMB'000) | 4,482,351 | 4,935,856 | 4,856,926 | 1,500,924 | 1,711,808 |
| Weighted average number of ordinary shares (thousand shares) | 5,740,455 | 5,740,455 | 5,740,455 | 5,740,455 | 5,740,455 |
| Basic earnings per share (RMB) | 0.78 | 0.86 | 0.85 | 0.26 | 0.30 |

(b) Diluted earnings per share

For the years ended December 31, 2018, 2019 and 2020 and the three months ended March 31, 2020 and 2021, the Bank had no potential diluted ordinary share, so the diluted earnings per share equaled the basic earnings per share.

## 15 Cash and balances with central banks

| **The Group** | **As at December 31,** | | | **As at March 31,** |
|---|---|---|---|---|
| | **2018** | **2019** | **2020** | **2021** |
| Cash | 1,610,576 | 2,456,109 | 2,432,295 | 2,629,927 |
| Mandatory reserve deposits with central banks[(a)] | 30,962,591 | 28,330,462 | 26,984,226 | 28,140,137 |
| Surplus reserve deposits[(b)] | 7,613,914 | 8,596,266 | 8,913,037 | 5,910,722 |
| Other deposits with the central bank[(c)] | 93,550 | 166,761 | 233,943 | 262,131 |
| Sub-total | 40,280,631 | 39,549,598 | 38,563,501 | 36,942,917 |
| Accrued interest | 16,251 | 7,573 | 12,953 | 12,960 |
| **Total** | 40,296,882 | 39,557,171 | 38,576,454 | 36,955,877 |

| **The Bank** | **As at December 31,** | | | **As at March 31,** |
|---|---|---|---|---|
| | **2018** | **2019** | **2020** | **2021** |
| Cash | 1,574,076 | 2,098,651 | 1,950,614 | 1,985,390 |
| Mandatory reserve deposits with central banks[(a)] | 30,681,641 | 26,496,632 | 23,343,938 | 23,547,096 |
| Surplus reserve deposits[(b)] | 7,540,721 | 8,341,570 | 6,923,738 | 5,176,185 |
| Other deposits with the central bank[(c)] | 93,550 | 119,844 | 141,760 | 219,716 |
| Sub-total | 39,889,988 | 37,056,697 | 32,360,050 | 30,928,387 |
| Accrued interest | 16,110 | 6,608 | 11,961 | 12,012 |
| **Total** | 39,906,098 | 37,063,305 | 32,372,011 | 30,940,399 |

(a) Mandatory reserve deposits with central banks represent the general reserve that the Group maintains with the People's Bank of China ("PBOC") in accordance with relevant regulations. The deposit ratios for the reserve of the Bank as at December 31, 2018, 2019 and 2020 and March 31, 2021 were as follows, respectively:

| | **As at December 31,** | | | **As at March 31,** |
|---|---|---|---|---|
| | **2018** | **2019** | **2020** | **2021** |
| Mandatory reserve rate for deposits denominated in RMB | 12.0% | 9.5% | 7.5% | 7.5% |
| Mandatory reserve rate for deposits denominated in foreign currencies | 5.0% | 5.0% | 5.0% | 5.0% |

The aforementioned mandatory reserve deposits with central banks cannot be used for daily operating activities. The ratios for RMB deposits in the reserve of the Bank's subsidiaries are in accordance with regulations of the PBOC.

(b) Surplus reserve deposits with central banks are mainly for the purpose of clearing and settlement.

(c) Other deposits with the central banks primarily represent fiscal deposits that are not available for use in the Group's daily operations, and are non-interest bearing from government.

## 16 Financial assets held under resale agreements and deposits and placements with banks and other financial institutions

| **The Group** | **As at December 31,** | | | **As at March 31,** |
|---|---|---|---|---|
| | **2018** | **2019** | **2020** | **2021** |
| Deposits with domestic banks and other financial institutions | 2,747,237 | 9,619,705 | 7,445,852 | 5,471,690 |
| Deposits with oversea banks and other financial institutions | 712,357 | 2,148,313 | 4,861,029 | 5,257,912 |
| Placements with domestic banks and other financial institutions | 2,024,644 | 4,174,038 | 890,822 | 990,000 |
| Notes held under resale agreements[(a)] | 2,798,107 | — | — | — |
| Bonds held under resale agreements[(a)] | 6,759,872 | 5,317,700 | 5,542,874 | 7,672,095 |
| Sub-total | 15,042,217 | 21,259,756 | 18,740,577 | 19,391,697 |
| Accrued interest | 21,129 | 80,703 | 15,034 | 10,736 |
| Provision for impairment losses | (29,772) | (40,796) | (48,177) | (63,492) |
| **Total** | 15,033,574 | 21,299,663 | 18,707,434 | 19,338,941 |

| **The Bank** | **As at December 31,** | | | **As at March 31,** |
|---|---|---|---|---|
| | **2018** | **2019** | **2020** | **2021** |
| Deposits with domestic banks and other financial institutions | 2,364,381 | 4,034,839 | 3,959,496 | 2,792,303 |
| Deposits with oversea banks and other financial institutions | 712,357 | 2,148,313 | 4,861,029 | 5,257,912 |
| Placements with domestic banks and other financial institutions | 2,024,644 | 4,094,038 | 491,494 | 300,000 |
| Notes held under resale agreements[(a)] | 2,798,107 | — | — | — |
| Bonds held under resale agreements[(a)] | 6,706,821 | 5,277,700 | 4,607,654 | 6,819,147 |
| Sub-total | 14,606,310 | 15,554,890 | 13,919,673 | 15,169,362 |
| Accrued interest | 19,223 | 39,311 | 4,240 | 4,310 |
| Provision for impairment losses | (27,560) | (32,965) | (43,064) | (52,137) |
| **Total** | 14,597,973 | 15,561,236 | 13,880,849 | 15,121,535 |

(a) As at December 31, 2018, 2019 and 2020 and March 31, 2021, the Group and the Bank did not use financial assets held under resale agreements as pledged or mortgaged assets for repurchase agreements with other financial institutions. The collateral received by the Group under resale agreements is presented in Note 39.

## 17 Loans and advances to customers

(a) Loans and advances to customers are summarized as follows:

| The Group | As at December 31, | | | As at March 31, |
|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 |
| **Loans and advances to customers measured at amortized cost** | | | | |
| Corporate loans and advances | | | | |
| — Corporate loans | 95,480,064 | 107,682,268 | 134,299,305 | 141,649,625 |
| — Discounted bills | 147,296 | 127,717 | 1,318,294 | 1,643,380 |
| | 95,627,360 | 107,809,985 | 135,617,599 | 143,293,005 |
| Personal loans and advances | | | | |
| — Property mortgages | 23,568,308 | 32,441,169 | 37,665,358 | 39,788,331 |
| — Personal consumption loans | 5,336,279 | 19,089,851 | 26,517,031 | 30,080,262 |
| — Business loans | 9,766,506 | 18,001,008 | 25,609,633 | 27,604,002 |
| — Credit cards | 10,870,652 | 10,516,314 | 8,223,874 | 7,601,216 |
| | 49,541,745 | 80,048,342 | 98,015,896 | 105,073,811 |
| Accrued interest | 304,589 | 438,358 | 531,968 | 591,851 |
| Total loans and advances to customers measured at amortized cost | 145,473,694 | 188,296,685 | 234,165,463 | 248,958,667 |
| Impairment provision for loans and advances measured at amortized cost | | | | |
| — Provision for ECL | (7,211,741) | (7,294,528) | (7,340,817) | (7,652,645) |
| Net book value of loans and advances to customers at amortized cost | 138,261,953 | 181,002,157 | 226,824,646 | 241,306,022 |
| **Loans and advances to customers at fair value through other comprehensive income** | | | | |
| Corporate loans and advances | | | | |
| — Rediscounted bills | 19,183,708 | 17,968,481 | 25,442,797 | 24,372,753 |
| — Other loans | — | — | 2,374,319 | 3,011,108 |
| Net loans and advances to customers | 157,445,661 | 198,970,638 | 254,641,762 | 268,689,883 |

As at December 31, 2018, 2019 and 2020 and March 31, 2021, the expected credit loss rates for loans and advances to customers at amortized cost of the Group were 4.96%, 3.87%, 3.13% and 3.07% respectively.

| The Bank | As at December 31, | | | As at March 31, |
|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 |
| **Loans and advances to customers measured at amortized cost** | | | | |
| Corporate loans and advances | | | | |
| — Corporate Loans | 94,236,770 | 104,799,868 | 128,948,113 | 135,118,269 |
| — Discounted bills | 147,296 | 127,717 | 1,308,463 | 1,633,476 |
| | 94,384,066 | 104,927,585 | 130,256,576 | 136,751,745 |
| Personal loans and advances | | | | |
| — Property mortgages | 23,479,727 | 29,747,272 | 33,602,627 | 35,680,362 |
| — Personal consumption loans | 5,125,700 | 17,214,222 | 24,201,235 | 27,851,840 |
| — Business loans | 8,600,522 | 14,682,242 | 22,293,797 | 24,251,305 |
| — Credit cards | 10,870,652 | 10,516,314 | 8,223,874 | 7,601,216 |
| | 48,076,601 | 72,160,050 | 88,321,533 | 95,384,723 |
| Accrued interest | 296,473 | 412,313 | 501,327 | 561,130 |
| Total loans and advances to customers measured at amortized cost | 142,757,140 | 177,499,948 | 219,079,436 | 232,697,598 |
| Impairment provision for loans and advances measured at amortized cost | | | | |
| — Provision for ECL | (6,685,582) | (6,972,588) | (6,693,581) | (6,867,564) |
| **Net book value of loans and advances to customers at amortized cost** | 136,071,558 | 170,527,360 | 212,385,855 | 225,830,034 |
| **Net loans and advances to customers at fair value through other comprehensive income** | | | | |
| Corporate loans and advances | | | | |
| — Rediscounted bills | 19,183,708 | 14,584,826 | 19,925,100 | 17,127,773 |
| — Other loans | — | — | 2,374,319 | 3,011,108 |
| Net loans and advances to customers | 155,255,266 | 185,112,186 | 234,685,274 | 245,968,915 |

As at December 31, 2018, 2019 and 2020 and March 31, 2021, the expected credit loss rates for loans and advances to customers at amortized cost of the Bank were 4.68%, 3.93%, 3.06% and 2.95% respectively.

(b) Changes in provision for impairment losses of loans and advances to customers by assessment type:

**The Group**

| | Stage 1 | Stage 2 | Stage 3 | |
|---|---|---|---|---|
| **Corporate loans and advances to customers measured at amortized cost** | **12-month ECL** | **Lifetime ECL** | **Lifetime ECL** | **Total** |
| As at January 1, 2018 | 1,147,919 | 1,680,719 | 2,288,128 | 5,116,766 |
| Originated or purchased | 1,145,375 | — | — | 1,145,375 |
| Repayment and transfer out | (580,289) | (493,491) | (683,598) | (1,757,378) |
| Write-off | — | — | (355,648) | (355,648) |
| Remeasurement[(i)] | 330,929 | 839,165 | 642,288 | 1,812,382 |
| Net transfers in : | | | | |
| — Stage 1 | 95,148 | — | — | 95,148 |
| — Stage 2 | — | (724,668) | — | (724,668) |
| — Stage 3 | — | — | 629,520 | 629,520 |
| As at December 31, 2018 | 2,139,082 | 1,301,725 | 2,520,690 | 5,961,497 |
| As at January 1, 2019 | 2,139,082 | 1,301,725 | 2,520,690 | 5,961,497 |
| Originated or purchased | 1,264,980 | — | — | 1,264,980 |
| Repayment and transfer out | (1,058,468) | (173,155) | (549,853) | (1,781,476) |
| Write-off | — | — | (1,034,193) | (1,034,193) |
| Remeasurement[(i)] | (43,915) | 964,538 | 387,591 | 1,308,214 |
| Net transfers in : | | | | |
| — Stage 1 | (48,509) | — | — | (48,509) |
| — Stage 2 | — | (871,994) | — | (871,994) |
| — Stage 3 | — | — | 920,503 | 920,503 |
| As at December 31, 2019 | 2,253,170 | 1,221,114 | 2,244,738 | 5,719,022 |
| As at January 1, 2020 | 2,253,170 | 1,221,114 | 2,244,738 | 5,719,022 |
| Originated or purchased | 1,383,252 | — | — | 1,383,252 |
| Repayment and transfer out | (1,166,897) | (732,754) | (565,730) | (2,465,381) |
| Write-off | — | — | (669,115) | (669,115) |
| Remeasurement[(i)] | (60,438) | 1,556,244 | 221,940 | 1,717,746 |
| Net transfers in : | | | | |
| — Stage 1 | (3,083) | — | — | (3,083) |
| — Stage 2 | — | (288,708) | — | (288,708) |
| — Stage 3 | — | — | 291,791 | 291,791 |
| As at December 31, 2020 | 2,406,004 | 1,755,896 | 1,523,624 | 5,685,524 |

| Corporate loans and advances to customers measured at amortized cost | Stage 1 | Stage 2 | Stage 3 | |
|---|---|---|---|---|
| | 12-month ECL | Lifetime ECL | Lifetime ECL | Total |
| As at January 1, 2021 | 2,406,004 | 1,755,896 | 1,523,624 | 5,685,524 |
| Originated or purchased | 398,189 | — | — | 398,189 |
| Repayment and transfer out | (253,874) | (591,878) | (177,133) | (1,022,885) |
| Write-off | — | — | — | — |
| Remeasurement[(i)] | (240,943) | 328,118 | 783,130 | 870,305 |
| Net transfers in : | | | | |
| — Stage 1 | (22,152) | — | — | (22,152) |
| — Stage 2 | — | (358,558) | — | (358,558) |
| — Stage 3 | — | — | 380,710 | 380,710 |
| As at March 31, 2021 | 2,287,224 | 1,133,578 | 2,510,331 | 5,931,133 |

(i) Remeasurement are caused by parameter changes or transfers between stages.

For the years ended December 31, 2018, 2019 and 2020 and the three months ended March 31, 2021, all the movements in ECL allowance on loans and advances to customers at fair value through other comprehensive income are in stage 1.

**The Group**

| Personal loans and advances to customers measured at amortized cost | Stage 1 | Stage 2 | Stage 3 | |
|---|---|---|---|---|
| | 12-month ECL | Lifetime ECL | Lifetime ECL | Total |
| As at January 1, 2018 | 777,264 | 131,728 | 342,437 | 1,251,429 |
| Originated or purchased | 122,292 | — | — | 122,292 |
| Repayment and transfer out | (79,696) | (64,198) | (87,319) | (231,213) |
| Write-off | — | — | (81,210) | (81,210) |
| Remeasurement[(i)] | (28,497) | 123,871 | 93,572 | 188,946 |
| Net transfers in : | | | | |
| — Stage 1 | 14,977 | — | — | 14,977 |
| — Stage 2 | — | (54,950) | — | (54,950) |
| — Stage 3 | — | — | 39,973 | 39,973 |
| As at December 31, 2018 | 806,340 | 136,451 | 307,453 | 1,250,244 |

| Personal loans and advances to customers measured at amortized cost | Stage 1<br>12-month ECL | Stage 2<br>Lifetime ECL | Stage 3<br>Lifetime ECL | Total |
|---|---|---|---|---|
| As at January 1, 2019 | 806,340 | 136,451 | 307,453 | 1,250,244 |
| Originated or purchased | 895,142 | — | — | 895,142 |
| Repayment and transfer out | (98,873) | (46,357) | (85,355) | (230,585) |
| Write-off | — | — | (109,842) | (109,842) |
| Remeasurement[(i)] | (528,611) | 152,698 | 146,460 | (229,453) |
| Net transfers in : | | | | |
| — Stage 1 | 28,868 | — | — | 28,868 |
| — Stage 2 | — | (96,402) | — | (96,402) |
| — Stage 3 | — | — | 67,534 | 67,534 |
| As at December 31, 2019 | 1,102,866 | 146,390 | 326,250 | 1,575,506 |
| As at January 1, 2020 | 1,102,866 | 146,390 | 326,250 | 1,575,506 |
| Originated or purchased | 438,361 | — | — | 438,361 |
| Repayment and transfer out | (362,336) | (85,350) | (109,815) | (557,501) |
| Write-off | — | — | (117,451) | (117,451) |
| Remeasurement[(i)] | (408,554) | 229,613 | 495,319 | 316,378 |
| Net transfers in : | | | | |
| — Stage 1 | 7,640 | — | — | 7,640 |
| — Stage 2 | — | (93,865) | — | (93,865) |
| — Stage 3 | — | — | 86,225 | 86,225 |
| As at December 31, 2020 | 777,977 | 196,788 | 680,528 | 1,655,293 |
| As at January 1, 2021 | 777,977 | 196,788 | 680,528 | 1,655,293 |
| Originated or purchased | 170,613 | — | — | 170,613 |
| Repayment and transfer out | (116,316) | (50,172) | (51,603) | (218,091) |
| Write-off | — | — | — | — |
| Remeasurement[(i)] | (202,836) | 211,403 | 105,130 | 113,697 |
| Net transfers in : | | | | |
| — Stage 1 | 24,798 | — | — | 24,798 |
| — Stage 2 | — | (29,397) | — | (29,397) |
| — Stage 3 | — | — | 4,599 | 4,599 |
| As at March 31, 2021 | 654,236 | 328,622 | 738,654 | 1,721,512 |

(i) Remeasurement are caused by parameter changes or transfers between stages.

**The Bank**

| Corporate loans and advances to customers measured at amortized cost | Stage 1<br>12-month ECL | Stage 2<br>Lifetime ECL | Stage 3<br>Lifetime ECL | Total |
|---|---|---|---|---|
| As at January 1, 2018 | 1,130,437 | 1,382,261 | 2,273,249 | 4,785,947 |
| Originated or purchased | 1,139,884 | — | — | 1,139,884 |
| Repayment and transfer out | (568,959) | (398,455) | (676,908) | (1,644,322) |
| Write-off | — | — | (308,648) | (308,648) |
| Remeasurement(i) | 332,336 | 721,199 | 532,855 | 1,586,390 |
| Net transfers in : | | | | |
| — Stage 1 | 97,484 | — | — | 97,484 |
| — Stage 2 | — | (632,730) | — | (632,730) |
| — Stage 3 | — | — | 535,246 | 535,246 |
| As at December 31, 2018 | 2,131,182 | 1,072,275 | 2,355,794 | 5,559,251 |
| As at January 1, 2019 | 2,131,182 | 1,072,275 | 2,355,794 | 5,559,251 |
| Originated or purchased | 1,221,007 | — | — | 1,221,007 |
| Repayment and transfer out | (1,052,312) | (211,118) | (497,553) | (1,760,983) |
| Write-off | — | — | (660,555) | (660,555) |
| Remeasurement(i) | (27,280) | 846,343 | 364,408 | 1,183,471 |
| Net transfers in : | | | | |
| — Stage 1 | (40,154) | — | — | (40,154) |
| — Stage 2 | — | (603,706) | — | (603,706) |
| — Stage 3 | — | — | 643,860 | 643,860 |
| As at December 31, 2019 | 2,232,443 | 1,103,794 | 2,205,954 | 5,542,191 |
| As at January 1, 2020 | 2,232,443 | 1,103,794 | 2,205,954 | 5,542,191 |
| Originated or purchased | 1,239,052 | — | — | 1,239,052 |
| Repayment and transfer out | (1,151,180) | (605,823) | (550,083) | (2,307,086) |
| Write-off | — | — | (665,865) | (665,865) |
| Remeasurement(i) | (31,775) | 1,507,480 | 186,503 | 1,662,208 |
| Net transfers in : | | | | |
| — Stage 1 | (3,686) | — | — | (3,686) |
| — Stage 2 | — | (291,016) | — | (291,016) |
| — Stage 3 | — | — | 294,702 | 294,702 |
| As at December 31, 2020 | 2,284,854 | 1,714,435 | 1,471,211 | 5,470,500 |

| Corporate loans and advances to customers measured at amortized cost | Stage 1 12-month ECL | Stage 2 Lifetime ECL | Stage 3 Lifetime ECL | Total |
|---|---|---|---|---|
| As at January 1, 2021 | 2,284,854 | 1,714,435 | 1,471,211 | 5,470,500 |
| Originated or purchased | 370,149 | — | — | 370,149 |
| Repayment and transfer out | (255,229) | (590,449) | (175,142) | (1,020,820) |
| Write-off | — | — | — | — |
| Remeasurement(i) | 3,751 | 11,838 | 682,122 | 697,711 |
| Net transfers in : | | | | |
| — Stage 1 | (20,211) | — | — | (20,211) |
| — Stage 2 | — | (359,810) | — | (359,810) |
| — Stage 3 | — | — | 380,021 | 380,021 |
| As at March 31, 2021 | 2,383,314 | 776,014 | 2,358,212 | 5,517,540 |

(i) Remeasurement are caused by parameter changes or transfers between stages.

For the years ended December 31, 2018, 2019 and 2020 and the three months ended March 31, 2021, all the movements in ECL allowance on loans and advances to customers at fair value through other comprehensive income are in stage 1.

**The Bank**

| Personal loans and advances to customers measured at amortized cost | Stage 1 12-month ECL | Stage 2 Lifetime ECL | Stage 3 Lifetime ECL | Total |
|---|---|---|---|---|
| As at January 1, 2018 | 742,305 | 65,728 | 327,825 | 1,135,858 |
| Originated or purchased | 101,868 | — | — | 101,868 |
| Repayment and transfer out | (61,764) | (24,103) | (80,556) | (166,423) |
| Write-off | — | — | (71,343) | (71,343) |
| Remeasurement(i) | (26,133) | 84,137 | 68,367 | 126,371 |
| Net transfers in : | | | | |
| — Stage 1 | 20,885 | — | — | 20,885 |
| — Stage 2 | — | (34,082) | — | (34,082) |
| — Stage 3 | — | — | 13,197 | 13,197 |
| As at December 31, 2018 | 777,161 | 91,680 | 257,490 | 1,126,331 |

| Personal loans and advances to customers measured at amortized cost | Stage 1 12-month ECL | Stage 2 Lifetime ECL | Stage 3 Lifetime ECL | Total |
|---|---|---|---|---|
| As at January 1, 2019 | 777,161 | 91,680 | 257,490 | 1,126,331 |
| Originated or purchased | 841,082 | — | — | 841,082 |
| Repayment and transfer out | (84,801) | (30,859) | (71,429) | (187,089) |
| Write-off | — | — | (58,233) | (58,233) |
| Remeasurement[(i)] | (484,200) | 110,589 | 81,917 | (291,694) |
| Net transfers in : | | | | |
| — Stage 1 | 31,370 | — | — | 31,370 |
| — Stage 2 | — | (72,134) | — | (72,134) |
| — Stage 3 | — | — | 40,764 | 40,764 |
| As at December 31, 2019 | 1,080,612 | 99,276 | 250,509 | 1,430,397 |
| As at January 1, 2020 | 1,080,612 | 99,276 | 250,509 | 1,430,397 |
| Originated or purchased | 306,674 | — | — | 306,674 |
| Repayment and transfer out | (338,938) | (54,354) | (62,259) | (455,551) |
| Write-off | — | — | (107,856) | (107,856) |
| Remeasurement[(i)] | (502,463) | 159,711 | 392,169 | 49,417 |
| Net transfers in : | | | | |
| — Stage 1 | 4,519 | — | — | 4,519 |
| — Stage 2 | — | (91,583) | — | (91,583) |
| — Stage 3 | — | — | 87,064 | 87,064 |
| As at December 31, 2020 | 550,404 | 113,050 | 559,627 | 1,223,081 |
| As at January 1, 2021 | 550,404 | 113,050 | 559,627 | 1,223,081 |
| Originated or purchased | 149,338 | — | — | 149,338 |
| Repayment and transfer out | (99,254) | (38,852) | (38,209) | (176,315) |
| Write-off | — | — | — | — |
| Remeasurement[(i)] | (48,690) | 113,486 | 89,124 | 153,920 |
| Net transfers in : | | | | |
| — Stage 1 | 13,772 | — | — | 13,772 |
| — Stage 2 | — | (17,411) | — | (17,411) |
| — Stage 3 | — | — | 3,639 | 3,639 |
| As at March 31, 2021 | 565,570 | 170,273 | 614,181 | 1,350,024 |

(i) Remeasurement are caused by parameter changes or transfers between stages.

(c) Analyzed by movements in carrying amount:

**The Group**

| Corporate loans and advances to customers measured at amortized cost | Stage 1<br>12-month ECL | Stage 2<br>Lifetime ECL | Stage 3<br>Lifetime ECL | Total |
|---|---|---|---|---|
| As at January 1, 2018 | 85,571,262 | 3,301,598 | 2,900,117 | 91,772,977 |
| Originated or purchased | 49,645,185 | — | — | 49,645,185 |
| Repayment and transfer out | (43,315,628) | (1,019,685) | (921,807) | (45,257,120) |
| Write-off | — | — | (355,648) | (355,648) |
| Net transfers in : | | | | |
| — Stage 1 | (1,447,816) | — | — | (1,447,816) |
| — Stage 2 | — | 65,314 | — | 65,314 |
| — Stage 3 | — | — | 1,382,502 | 1,382,502 |
| As at December 31, 2018 | 90,453,003 | 2,347,227 | 3,005,164 | 95,805,394 |
| As at January 1, 2019 | 90,453,003 | 2,347,227 | 3,005,164 | 95,805,394 |
| Acquisition of a subsidiary | 2,067,840 | — | — | 2,067,840 |
| Originated or purchased | 58,327,106 | — | — | 58,327,106 |
| Repayment and transfer out | (45,623,463) | (717,427) | (778,761) | (47,119,651) |
| Write-off | — | — | (1,034,193) | (1,034,193) |
| Net transfers in : | | | | |
| — Stage 1 | (2,407,466) | — | — | (2,407,466) |
| — Stage 2 | — | 841,613 | — | 841,613 |
| — Stage 3 | — | — | 1,565,853 | 1,565,853 |
| As at December 31, 2019 | 102,817,020 | 2,471,413 | 2,758,063 | 108,046,496 |
| As at January 1, 2020 | 102,817,020 | 2,471,413 | 2,758,063 | 108,046,496 |
| Acquisition of a subsidiary(i) | 1,054,986 | — | — | 1,054,986 |
| Originated or purchased | 84,163,397 | — | — | 84,163,397 |
| Repayment and transfer out | (54,207,991) | (1,659,679) | (799,277) | (56,666,947) |
| Write-off | — | — | (669,115) | (669,115) |
| Net transfers in : | | | | |
| — Stage 1 | (3,190,852) | — | — | (3,190,852) |
| — Stage 2 | — | 2,523,101 | — | 2,523,101 |
| — Stage 3 | — | — | 667,751 | 667,751 |
| As at December 31, 2020 | 130,636,560 | 3,334,835 | 1,957,422 | 135,928,817 |

| Corporate loans and advances to customers measured at amortized cost | Stage 1 12-month ECL | Stage 2 Lifetime ECL | Stage 3 Lifetime ECL | Total |
|---|---|---|---|---|
| As at January 1, 2021 | 130,636,560 | 3,334,835 | 1,957,422 | 135,928,817 |
| Originated or purchased | 26,424,275 | — | — | 26,424,275 |
| Repayment and transfer out | (16,777,664) | (1,655,642) | (280,390) | (18,713,696) |
| Write-off | — | — | — | — |
| Net transfers in : | | | | |
| — Stage 1 | (1,739,836) | — | — | (1,739,836) |
| — Stage 2 | — | 363,939 | — | 363,939 |
| — Stage 3 | — | — | 1,375,897 | 1,375,897 |
| As at March 31, 2021 | 138,543,335 | 2,043,132 | 3,052,929 | 143,639,396 |

(i) The credit impaired corporate loans and advances to customers acquired from the subsidiary amounted to RMB17,439 thousand.

For the years ended December 31, 2018, 2019 and 2020 and the three months ended March 31, 2021, all the movements in ECL allowance on loans and advances to customers at fair value through other comprehensive income are in stage 1.

**The Group**

| Personal loans and advances to customers measured at amortized cost | Stage 1 12-month ECL | Stage 2 Lifetime ECL | Stage 3 Lifetime ECL | Total |
|---|---|---|---|---|
| As at January 1, 2018 | 41,142,937 | 215,762 | 406,080 | 41,764,779 |
| Originated or purchased | 16,744,747 | — | — | 16,744,747 |
| Repayment and transfer out | (8,560,427) | (108,648) | (90,941) | (8,760,016) |
| Write-off | — | — | (81,210) | (81,210) |
| Net transfers in : | | | | |
| — Stage 1 | (266,026) | — | — | (266,026) |
| — Stage 2 | — | 124,396 | — | 124,396 |
| — Stage 3 | — | — | 141,630 | 141,630 |
| As at December 31, 2018 | 49,061,231 | 231,510 | 375,559 | 49,668,300 |

| Personal loans and advances to customers measured at amortized cost | Stage 1<br>12-month ECL | Stage 2<br>Lifetime ECL | Stage 3<br>Lifetime ECL | Total |
|---|---|---|---|---|
| As at January 1, 2019 | 49,061,231 | 231,510 | 375,559 | 49,668,300 |
| Acquisition of a subsidiary | 6,169,208 | — | — | 6,169,208 |
| Originated or purchased | 37,534,757 | — | — | 37,534,757 |
| Repayment and transfer out | (12,805,872) | (89,960) | (116,402) | (13,012,234) |
| Write-off | — | — | (109,842) | (109,842) |
| Net transfers in : | | | | |
| — Stage 1 | (648,306) | — | — | (648,306) |
| — Stage 2 | — | 369,710 | — | 369,710 |
| — Stage 3 | — | — | 278,596 | 278,596 |
| As at December 31, 2019 | 79,311,018 | 511,260 | 427,911 | 80,250,189 |
| As at January 1, 2020 | 79,311,018 | 511,260 | 427,911 | 80,250,189 |
| Acquisition of a subsidiary(i) | 1,207,002 | — | — | 1,207,002 |
| Originated or purchased | 49,477,704 | — | — | 49,477,704 |
| Repayment and transfer out | (32,044,701) | (367,703) | (168,395) | (32,580,799) |
| Write-off | — | — | (117,450) | (117,450) |
| Net transfers in : | | | | |
| — Stage 1 | (1,193,294) | — | — | (1,193,294) |
| — Stage 2 | — | 501,341 | — | 501,341 |
| — Stage 3 | — | — | 691,953 | 691,953 |
| As at December 31, 2020 | 96,757,729 | 644,898 | 834,019 | 98,236,646 |
| As at January 1, 2021 | 96,757,729 | 644,898 | 834,019 | 98,236,646 |
| Originated or purchased | 19,863,985 | — | — | 19,863,985 |
| Repayment and transfer out | (12,572,535) | (146,471) | (62,354) | (12,781,360) |
| Write-off | — | — | — | — |
| Net transfers in : | | | | |
| — Stage 1 | (474,593) | — | — | (474,593) |
| — Stage 2 | — | 353,956 | — | 353,956 |
| — Stage 3 | — | — | 120,637 | 120,637 |
| As at March 31, 2021 | 103,574,586 | 852,383 | 892,302 | 105,319,271 |

(i) The credit impaired personal loans and advances to customers acquired from the subsidiary amounted to RMB2,523 thousand.

**The Bank**

| Corporate loans and advances to customers measured at amortized cost | Stage 1<br>12-month ECL | Stage 2<br>Lifetime ECL | Stage 3<br>Lifetime ECL | Total |
|---|---|---|---|---|
| As at January 1, 2018 | 84,678,341 | 2,615,628 | 2,881,617 | 90,175,586 |
| Originated or purchased | 48,994,526 | — | — | 48,994,526 |
| Repayment and transfer out | (42,576,067) | (811,125) | (912,172) | (44,299,364) |
| Write-off | — | — | (308,648) | (308,648) |
| Net transfers in : | | | | |
| — Stage 1 | (1,177,833) | — | — | (1,177,833) |
| — Stage 2 | — | 21,301 | — | 21,301 |
| — Stage 3 | — | — | 1,156,532 | 1,156,532 |
| As at December 31, 2018 | 89,918,967 | 1,825,804 | 2,817,329 | 94,562,100 |
| As at January 1, 2019 | 89,918,967 | 1,825,804 | 2,817,329 | 94,562,100 |
| Originated or purchased | 57,355,300 | — | — | 57,355,300 |
| Repayment and transfer out | (44,904,738) | (472,860) | (704,954) | (46,082,552) |
| Write-off | — | — | (660,555) | (660,555) |
| Net transfers in : | | | | |
| — Stage 1 | (1,708,641) | — | — | (1,708,641) |
| — Stage 2 | — | 430,260 | — | 430,260 |
| — Stage 3 | — | — | 1,278,381 | 1,278,381 |
| As at December 31, 2019 | 100,660,888 | 1,783,204 | 2,730,201 | 105,174,293 |
| As at January 1, 2020 | 100,660,888 | 1,783,204 | 2,730,201 | 105,174,293 |
| Originated or purchased | 80,720,685 | — | — | 80,720,685 |
| Repayment and transfer out | (52,781,361) | (1,107,972) | (782,407) | (54,671,740) |
| Write-off | — | — | (665,866) | (665,866) |
| Net transfers in : | | | | |
| — Stage 1 | (2,636,744) | — | — | (2,636,744) |
| — Stage 2 | — | 2,052,422 | — | 2,052,422 |
| — Stage 3 | — | — | 584,322 | 584,322 |
| As at December 31, 2020 | 125,963,468 | 2,727,654 | 1,866,250 | 130,557,372 |

| Corporate loans and advances to customers measured at amortized cost | Stage 1<br>12-month ECL | Stage 2<br>Lifetime ECL | Stage 3<br>Lifetime ECL | Total |
|---|---|---|---|---|
| As at January 1, 2021 | 125,963,468 | 2,727,654 | 1,866,250 | 130,557,372 |
| Originated or purchased | 24,477,421 | — | — | 24,477,421 |
| Repayment and transfer out | (16,093,500) | (1,583,336) | (269,535) | (17,946,371) |
| Write-off | — | — | — | — |
| Net transfers in : | | | | |
| — Stage 1 | (1,402,734) | — | — | (1,402,734) |
| — Stage 2 | — | 134,411 | — | 134,411 |
| — Stage 3 | — | — | 1,268,323 | 1,268,323 |
| As at March 31, 2021 | 132,944,655 | 1,278,729 | 2,865,038 | 137,088,422 |

For the years ended December 31, 2018, 2019 and 2020 and the three months ended March 31, 2021, all the movements in ECL allowance on loans and advances to customers at fair value through other comprehensive income are in stage 1.

**The Bank**

| Personal loans and advances to customers measured at amortized cost | Stage 1<br>12-month ECL | Stage 2<br>Lifetime ECL | Stage 3<br>Lifetime ECL | Total |
|---|---|---|---|---|
| As at January 1, 2018 | 39,971,188 | 108,600 | 387,807 | 40,467,595 |
| Originated or purchased | 15,957,776 | — | — | 15,957,776 |
| Repayment and transfer out | (8,035,806) | (40,654) | (82,528) | (8,158,988) |
| Write-off | — | — | (71,343) | (71,343) |
| Net transfers in : | | | | |
| — Stage 1 | (164,472) | — | — | (164,472) |
| — Stage 2 | — | 80,771 | — | 80,771 |
| — Stage 3 | — | — | 83,701 | 83,701 |
| As at December 31, 2018 | 47,728,686 | 148,717 | 317,637 | 48,195,040 |
| As at January 1, 2019 | 47,728,686 | 148,717 | 317,637 | 48,195,040 |
| Originated or purchased | 36,281,675 | — | — | 36,281,675 |
| Repayment and transfer out | (11,953,916) | (45,384) | (93,527) | (12,092,827) |
| Write-off | — | — | (58,233) | (58,233) |
| Net transfers in : | | | | |
| — Stage 1 | (268,313) | — | — | (268,313) |
| — Stage 2 | — | 89,189 | — | 89,189 |
| — Stage 3 | — | — | 179,124 | 179,124 |
| As at December 31, 2019 | 71,788,132 | 192,522 | 345,001 | 72,325,655 |

| Personal loans and advances to customers measured at amortized cost | Stage 1<br>12-month ECL | Stage 2<br>Lifetime ECL | Stage 3<br>Lifetime ECL | Total |
|---|---|---|---|---|
| As at January 1, 2020 | 71,788,132 | 192,522 | 345,001 | 72,325,655 |
| Originated or purchased | 46,524,586 | — | — | 46,524,586 |
| Repayment and transfer out | (29,977,390) | (128,160) | (114,772) | (30,220,322) |
| Write-off | — | — | (107,855) | (107,855) |
| Net transfers in : | | | | — |
| — Stage 1 | (759,675) | — | — | (759,675) |
| — Stage 2 | — | 202,407 | — | 202,407 |
| — Stage 3 | — | — | 557,268 | 557,268 |
| As at December 31, 2020 | 87,575,653 | 266,769 | 679,642 | 88,522,064 |
| As at January 1, 2021 | 87,575,653 | 266,769 | 679,642 | 88,522,064 |
| Originated or purchased | 19,077,151 | — | — | 19,077,151 |
| Repayment and transfer out | (11,851,622) | (93,421) | (44,996) | (11,990,039) |
| Write-off | — | — | — | — |
| Net transfers in : | | | | |
| — Stage 1 | (371,282) | — | — | (371,282) |
| — Stage 2 | — | 282,727 | — | 282,727 |
| — Stage 3 | — | — | 88,555 | 88,555 |
| As at March 31, 2021 | 94,429,900 | 456,075 | 723,201 | 95,609,176 |

(d) Loans and advances to customers by assessment type:

**The Group**

| | Carrying amounts | | | |
|---|---|---|---|---|
| As at December 31, 2018 | Stage 1<br>12-month ECL | Stage 2<br>Lifetime ECL | Stage 3<br>Lifetime ECL | Total |
| Total loans and advances to customers | | | | |
| — Corporate loans and advances | 109,636,711 | 2,347,227 | 3,005,164 | 114,989,102 |
| — Personal loans and advances | 49,061,231 | 231,510 | 375,559 | 49,668,300 |
| Provision for ECL | (2,945,422) | (1,438,176) | (2,828,143) | (7,211,741) |
| Net loans and advances to customers | 155,752,520 | 1,140,561 | 552,580 | 157,445,661 |

| As at December 31, 2019 | Carrying amounts<br>Stage 1<br>12-month ECL | <br>Stage 2<br>Lifetime ECL | <br>Stage 3<br>Lifetime ECL | <br><br>Total |
|---|---|---|---|---|
| Total loans and advances to customers | | | | |
| — Corporate loans and advances | 120,765,748 | 2,491,166 | 2,758,063 | 126,014,977 |
| — Personal loans and advances | 79,311,018 | 511,260 | 427,911 | 80,250,189 |
| Provision for ECL | (3,356,036) | (1,367,504) | (2,570,988) | (7,294,528) |
| Net loans and advances to customers | 196,720,730 | 1,634,922 | 614,986 | 198,970,638 |

| As at December 31, 2020 | Carrying amounts<br>Stage 1<br>12-month ECL | <br>Stage 2<br>Lifetime ECL | <br>Stage 3<br>Lifetime ECL | <br><br>Total |
|---|---|---|---|---|
| Total loans and advances to customers | | | | |
| — Corporate loans and advances | 158,453,676 | 3,334,835 | 1,957,422 | 163,745,933 |
| — Personal loans and advances | 96,757,729 | 644,898 | 834,019 | 98,236,646 |
| Provision for ECL | (3,183,981) | (1,952,684) | (2,204,152) | (7,340,817) |
| Net loans and advances to customers | 252,027,424 | 2,027,049 | 587,289 | 254,641,762 |

| As at March 31, 2021 | Carrying amounts<br>Stage 1<br>12-month ECL | <br>Stage 2<br>Lifetime ECL | <br>Stage 3<br>Lifetime ECL | <br><br>Total |
|---|---|---|---|---|
| Total loans and advances to customers | | | | |
| — Corporate loans and advances | 165,927,196 | 2,043,132 | 3,052,929 | 171,023,257 |
| — Personal loans and advances | 103,574,586 | 852,383 | 892,302 | 105,319,271 |
| Provision for ECL | (2,941,460) | (1,462,200) | (3,248,985) | (7,652,645) |
| Net loans and advances to customers | 266,560,322 | 1,433,315 | 696,246 | 268,689,883 |

**The Bank**

| As at December 31, 2018 | Carrying amounts Stage 1 12-month ECL | Stage 2 Lifetime ECL | Stage 3 Lifetime ECL | Total |
|---|---|---|---|---|
| Total loans and advances to customers | | | | |
| — Corporate loans and advances | 109,102,675 | 1,825,804 | 2,817,329 | 113,745,808 |
| — Personal loans and advances | 47,728,686 | 148,717 | 317,637 | 48,195,040 |
| Provision for ECL | (2,908,343) | (1,163,955) | (2,613,284) | (6,685,582) |
| Net loans and advances to customers | 153,923,018 | 810,566 | 521,682 | 155,255,266 |

| As at December 31, 2019 | Carrying amounts Stage 1 12-month ECL | Stage 2 Lifetime ECL | Stage 3 Lifetime ECL | Total |
|---|---|---|---|---|
| Total loans and advances to customers | | | | |
| — Corporate loans and advances | 115,225,961 | 1,802,957 | 2,730,201 | 119,759,119 |
| — Personal loans and advances | 71,788,132 | 192,522 | 345,001 | 72,325,655 |
| Provision for ECL | (3,313,055) | (1,203,070) | (2,456,463) | (6,972,588) |
| Net loans and advances to customers | 183,701,038 | 792,409 | 618,739 | 185,112,186 |

| As at December 31, 2020 | Carrying amounts Stage 1 12-month ECL | Stage 2 Lifetime ECL | Stage 3 Lifetime ECL | Total |
|---|---|---|---|---|
| Total loans and advances to customers | | | | |
| — Corporate loans and advances | 148,262,887 | 2,727,654 | 1,866,250 | 152,856,791 |
| — Personal loans and advances | 87,575,653 | 266,769 | 679,642 | 88,522,064 |
| Provision for ECL | (2,835,258) | (1,827,485) | (2,030,838) | (6,693,581) |
| Net loans and advances to customers | 233,003,282 | 1,166,938 | 515,054 | 234,685,274 |

| As at March 31, 2021 | Carrying amounts | | | |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | |
| | 12-month ECL | Lifetime ECL | Lifetime ECL | Total |
| Total loans and advances to customers | | | | |
| — Corporate loans and advances | 153,083,536 | 1,278,729 | 2,865,038 | 157,227,303 |
| — Personal loans and advances | 94,429,900 | 456,075 | 723,201 | 95,609,176 |
| Provision for ECL | (2,948,884) | (946,287) | (2,972,393) | (6,867,564) |
| Net loans and advances to customers | 244,564,532 | 788,517 | 615,846 | 245,968,915 |

## 18 Financial investments

| The Group | | As at December 31, | | | As at March 31, |
|---|---|---|---|---|---|
| | Note | 2018 | 2019 | 2020 | 2021 |
| Financial assets at fair value through profit or loss | 18.1 | 34,974,737 | 30,254,846 | 36,101,567 | 37,097,217 |
| Financial investments at amortized cost | 18.2 | 67,979,559 | 86,869,578 | 111,667,933 | 109,770,386 |
| Financial investments at fair value through other comprehensive income | 18.3 | 86,043,104 | 78,350,885 | 79,943,601 | 84,139,022 |
| **Total** | | 188,997,400 | 195,475,309 | 227,713,101 | 231,006,625 |

| The Bank | | As at December 31, | | | As at March 31, |
|---|---|---|---|---|---|
| | Note | 2018 | 2019 | 2020 | 2021 |
| Financial assets at fair value through profit or loss | 18.1 | 34,974,737 | 30,254,846 | 35,971,047 | 36,731,865 |
| Financial investments at amortized cost | 18.2 | 67,811,115 | 80,462,517 | 78,721,881 | 82,099,003 |
| Financial investments at fair value through other comprehensive income | 18.3 | 83,946,187 | 76,185,204 | 76,407,306 | 75,358,097 |
| **Total** | | 186,732,039 | 186,902,567 | 191,100,234 | 194,188,965 |

### 18.1 Financial assets at fair value through profit or loss

| The Group | As at December 31, | | | As at March 31, |
|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 |
| Measured at fair value through profit or loss | | | | |
| — Held for trading | 29,675,743 | 27,052,232 | 32,639,420 | 33,634,228 |
| — Other financial assets at fair value through profit or loss | 5,298,994 | 3,202,614 | 3,462,147 | 3,462,989 |
| **Total** | 34,974,737 | 30,254,846 | 36,101,567 | 37,097,217 |
| Listed in Mainland China | | | | |
| — Government bonds | 909,749 | 7,639,845 | 5,961,279 | 4,234,017 |
| — Financial institution bonds | 9,845,996 | 2,751,497 | 3,153,794 | 4,626,210 |
| — Corporate bonds | 7,002,796 | 5,500,335 | 3,027,470 | 2,366,741 |
| — Interbank certificates of deposits | 6,517,182 | 988,266 | — | 48,757 |
| — Fund Investments | 6,423,499 | 10,215,267 | 20,496,877 | 22,358,502 |
| Sub-total | 30,699,222 | 27,095,210 | 32,639,420 | 33,634,227 |
| Unlisted | | | | |
| — Rights to earnings on credit assets[(a)] | 4,245,486 | 3,130,299 | 3,434,843 | 3,435,058 |
| — Others | 30,029 | 29,337 | 27,304 | 27,932 |
| Sub-total | 4,275,515 | 3,159,636 | 3,462,147 | 3,462,990 |
| **Total** | 34,974,737 | 30,254,846 | 36,101,567 | 37,097,217 |

| The Bank | As at December 31, | | | As at March 31, |
|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 |
| Measured at fair value through profit or loss | | | | |
| — Held for trading | 29,675,743 | 27,052,232 | 32,518,900 | 33,338,876 |
| — Other financial assets at fair value through profit or loss | 5,298,994 | 3,202,614 | 3,452,147 | 3,392,989 |
| **Total** | 34,974,737 | 30,254,846 | 35,971,047 | 36,731,865 |
| Listed in Mainland China | | | | |
| — Government bonds | 909,749 | 7,639,845 | 5,930,205 | 4,234,017 |
| — Financial institution bonds | 9,845,996 | 2,751,497 | 3,133,799 | 4,568,435 |
| — Corporate bonds | 7,002,796 | 5,500,335 | 2,958,018 | 2,177,921 |
| — Interbank certificates of deposits | 6,517,182 | 988,266 | — | — |
| — Fund Investments | 6,423,499 | 10,215,267 | 20,496,878 | 22,358,502 |
| Sub-total | 30,699,222 | 27,095,210 | 32,518,900 | 33,338,875 |
| Unlisted | | | | |
| — Rights to earnings on credit assets[(a)] | 4,245,486 | 3,130,299 | 3,424,843 | 3,365,058 |
| — Others | 30,029 | 29,337 | 27,304 | 27,932 |
| Sub-total | 4,275,515 | 3,159,636 | 3,452,147 | 3,392,990 |
| **Total** | 34,974,737 | 30,254,846 | 35,971,047 | 36,731,865 |

(a) As at December 31, 2018, 2019 and 2020 and March 31, 2021, the rights to earnings on credit assets are invested in loan, foreclosed assets and finance lease receivables.

**18.2 Financial investments at amortized cost**

| The Group | As at December 31, | | | As at March 31, |
|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 |
| Listed in Mainland China | | | | |
| — Government bonds | 47,321,373 | 60,337,042 | 75,986,548 | 75,556,258 |
| — Financial institution bonds | 7,430,009 | 9,869,742 | 16,446,750 | 16,785,563 |
| — Corporate bonds | 5,856,552 | 7,345,014 | 7,378,596 | 8,525,651 |
| — Interbank certificates of deposits | 165,816 | 4,177,123 | 9,210,778 | 6,351,623 |
| Sub-total | 60,773,750 | 81,728,921 | 109,022,672 | 107,219,095 |
| Unlisted | | | | |
| — Rights to earnings on credit assets (18.1(a)) | 6,384,931 | 3,969,649 | 902,634 | 654,519 |
| — Certificate treasury bonds | 25,387 | 62,765 | 104,772 | 108,867 |
| Sub-total | 6,410,318 | 4,032,414 | 1,007,406 | 763,386 |
| Accrued interest | 909,644 | 1,234,271 | 1,758,819 | 1,899,517 |
| Provision for ECL | (114,153) | (126,028) | (120,964) | (111,612) |
| **Total** | 67,979,559 | 86,869,578 | 111,667,933 | 109,770,386 |

(1) Analyzed by movements in loss allowance:

| The Group | Stage 1 | Stage 2 | Stage 3 | |
|---|---|---|---|---|
| | 12-month ECL | Lifetime ECL | Lifetime ECL | Total |
| As at January 1, 2018 | 71,168 | 13,537 | — | 84,705 |
| Originated or purchased | 73,411 | — | — | 73,411 |
| Repayment and transfer out | (37,209) | (3,822) | — | (41,031) |
| Remeasurement[(i)] | (3,337) | 405 | — | (2,932) |
| Net transfers in : | | | | |
| — Stage 1 | (6) | — | — | (6) |
| — Stage 2 | — | 6 | — | 6 |
| — Stage 3 | — | — | — | — |
| As at December 31, 2018 | 104,027 | 10,126 | — | 114,153 |

| The Group | Stage 1 | Stage 2 | Stage 3 | |
|---|---|---|---|---|
| | 12-month ECL | Lifetime ECL | Lifetime ECL | Total |
| As at January 1, 2019 | 104,027 | 10,126 | — | 114,153 |
| Originated or purchased | 64,572 | — | — | 64,572 |
| Repayment and transfer out | (68,014) | (2,168) | — | (70,182) |
| Remeasurement[(i)] | 16,617 | 868 | — | 17,485 |
| Net transfers in : | | | | |
| — Stage 1 | 2,714 | — | — | 2,714 |
| — Stage 2 | — | (2,714) | — | (2,714) |
| — Stage 3 | — | — | — | — |
| As at December 31, 2019 | 119,916 | 6,112 | — | 126,028 |
| As at January 1, 2020 | 119,916 | 6,112 | — | 126,028 |
| Originated or purchased | 38,973 | — | — | 38,973 |
| Repayment and transfer out | (75,059) | (2,382) | — | (77,441) |
| Remeasurement[(i)] | 16,334 | 592 | 16,478 | 33,404 |
| Net transfers in : | | | | |
| — Stage 1 | (281) | — | — | (281) |
| — Stage 2 | — | (1,210) | — | (1,210) |
| — Stage 3 | — | — | 1,491 | 1,491 |
| As at December 31, 2020 | 99,883 | 3,112 | 17,969 | 120,964 |
| As at January 1, 2021 | 99,883 | 3,112 | 17,969 | 120,964 |
| Originated or purchased | 19,832 | — | — | 19,832 |
| Repayment and transfer out | (20,991) | — | (17,969) | (38,960) |
| Remeasurement[(i)] | 9,154 | 622 | — | 9,776 |
| Net transfers in : | | | | |
| — Stage 1 | (147) | — | — | (147) |
| — Stage 2 | — | 147 | — | 147 |
| — Stage 3 | — | — | — | — |
| As at March 31, 2021 | 107,731 | 3,881 | — | 111,612 |

(i) Remeasurement are caused by parameter changes or transfers between stages.

As at December 31, 2018, 2019 and 2020 and March 31, 2021, the expected credit loss rates for financial investments at amortized cost of the Group were 0.17%, 0.14%, 0.11% and 0.10% respectively.

(2) Analyzed by movements in carrying amount:

| The Group | Stage 1 12-month ECL | Stage 2 Lifetime ECL | Stage 3 Lifetime ECL | Total |
|---|---|---|---|---|
| As at January 1, 2018 | 61,020,759 | 531,496 | — | 61,552,255 |
| Originated or purchased | 20,933,536 | — | — | 20,933,536 |
| Repayment and transfer out | (14,264,500) | (127,579) | — | (14,392,079) |
| Net transfers in : | | | | |
| — Stage 1 | (112,004) | — | — | (112,004) |
| — Stage 2 | — | 112,004 | — | 112,004 |
| — Stage 3 | — | — | — | — |
| As at December 31, 2018 | 67,577,791 | 515,921 | — | 68,093,712 |
| As at January 1, 2019 | 67,577,791 | 515,921 | — | 68,093,712 |
| Acquisition of a subsidiary(i) | 2,419,204 | — | — | 2,419,204 |
| Originated or purchased | 32,961,234 | — | — | 32,961,234 |
| Repayment and transfer out | (16,350,807) | (127,737) | — | (16,478,544) |
| Net transfers in : | | | | |
| — Stage 1 | 170,826 | — | — | 170,826 |
| — Stage 2 | — | (170,826) | — | (170,826) |
| — Stage 3 | — | — | — | — |
| As at December 31, 2019 | 86,778,248 | 217,358 | — | 86,995,606 |
| As at January 1, 2020 | 86,778,248 | 217,358 | — | 86,995,606 |
| Acquisition of a subsidiary(i) | 16,487,788 | — | — | 16,487,788 |
| Originated or purchased | 33,891,102 | — | — | 33,891,102 |
| Repayment and transfer out | (25,508,839) | (76,760) | — | (25,585,599) |
| Net transfers in : | | | | |
| — Stage 1 | (93,441) | — | — | (93,441) |
| — Stage 2 | — | 40,403 | — | 40,403 |
| — Stage 3 | — | — | 53,038 | 53,038 |
| As at December 31, 2020 | 111,554,858 | 181,001 | 53,038 | 111,788,897 |
| As at January 1, 2021 | 111,554,858 | 181,001 | 53,038 | 111,788,897 |
| Originated or purchased | 16,634,559 | — | — | 16,634,559 |
| Repayment and transfer out | (18,488,420) | — | (53,038) | (18,541,458) |
| Net transfers in : | | | | |
| — Stage 1 | (71,798) | — | — | (71,798) |
| — Stage 2 | — | 71,798 | — | 71,798 |
| — Stage 3 | — | — | — | — |
| As at March 31, 2021 | 109,629,199 | 252,799 | — | 109,881,998 |

(i) The financial investments acquired from the subsidiary in 2019 are mainly government bonds and interbank certificates of deposits and classified in stage 1.

The financial investments acquired from the subsidiary in 2020 are mainly government bonds, financial institution bonds and interbank certificates of deposits and classified in stage 1.

| The Bank | As at December 31, | | | As at March 31, |
|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 |
| Listed in Mainland China | | | | |
| — Government bonds | 47,321,373 | 59,013,550 | 66,029,397 | 69,472,790 |
| — Financial institution bonds | 7,430,009 | 8,995,896 | 5,403,344 | 5,349,514 |
| — Corporate bonds | 5,856,552 | 7,345,014 | 5,479,749 | 5,476,018 |
| Sub-total | 60,607,934 | 75,354,460 | 76,912,490 | 80,298,322 |
| Unlisted | | | | |
| — Right to earnings on credit assets (18.1(a)) | 6,384,931 | 3,969,648 | 500,744 | 256,629 |
| — Certificate treasury bonds | 25,387 | 62,765 | 104,772 | 108,867 |
| Sub-total | 6,410,318 | 4,032,413 | 605,516 | 365,496 |
| Accrued interest | 906,978 | 1,200,333 | 1,276,679 | 1,509,124 |
| Provision for ECL | (114,115) | (124,689) | (72,804) | (73,939) |
| **Total** | 67,811,115 | 80,462,517 | 78,721,881 | 82,099,003 |

(1) Analyzed by movements in loss allowance :

| The Bank | Stage 1 | Stage 2 | Stage 3 | |
|---|---|---|---|---|
| | 12-month ECL | Lifetime ECL | Lifetime ECL | Total |
| As at January 1, 2018 | 70,619 | 13,537 | — | 84,156 |
| Originated or purchased | 73,373 | — | — | 73,373 |
| Repayment and transfer out | (36,660) | (3,822) | — | (40,482) |
| Remeasurement[(i)] | (3,337) | 405 | — | (2,932) |
| Net transfers in : | | | | |
| — Stage 1 | (6) | — | — | (6) |
| — Stage 2 | — | 6 | — | 6 |
| — Stage 3 | — | — | — | — |
| As at December 31, 2018 | 103,989 | 10,126 | — | 114,115 |
| As at January 1, 2019 | 103,989 | 10,126 | — | 114,115 |
| Originated or purchased | 63,688 | — | — | 63,688 |
| Repayment and transfer out | (67,958) | (2,168) | — | (70,126) |
| Remeasurement[(i)] | 16,144 | 868 | — | 17,012 |
| Net transfers in : | | | | |
| — Stage 1 | 2,714 | — | — | 2,714 |
| — Stage 2 | — | (2,714) | — | (2,714) |
| — Stage 3 | — | — | — | — |
| As at December 31, 2019 | 118,577 | 6,112 | — | 124,689 |

| The Bank | Stage 1 | Stage 2 | Stage 3 | |
|---|---|---|---|---|
| | 12-month ECL | Lifetime ECL | Lifetime ECL | Total |
| As at January 1, 2020 | 118,577 | 6,112 | — | 124,689 |
| Originated or purchased | 10,153 | — | — | 10,153 |
| Repayment and transfer out | (72,472) | (2,382) | — | (74,854) |
| Remeasurement(i) | 13,637 | (821) | — | 12,816 |
| Net transfers in : | | | | |
| — Stage 1 | (203) | — | — | (203) |
| — Stage 2 | — | 203 | — | 203 |
| — Stage 3 | — | — | — | — |
| As at December 31, 2020 | 69,692 | 3,112 | — | 72,804 |
| As at January 1, 2021 | 69,692 | 3,112 | — | 72,804 |
| Originated or purchased | 2,625 | — | — | 2,625 |
| Repayment and transfer out | (1,461) | — | — | (1,461) |
| Remeasurement(i) | (650) | 621 | — | (29) |
| Net transfers in : | | | | |
| — Stage 1 | (23) | — | — | (23) |
| — Stage 2 | — | 23 | — | 23 |
| — Stage 3 | — | — | — | — |
| As at March 31, 2021 | 70,183 | 3,756 | — | 73,939 |

(i) Remeasurement are caused by parameter changes or transfers between stages.

As at December 31, 2018, 2019 and 2020 and March 31, 2021, the expected credit loss rates for financial investments at amortised cost of the Bank were 0.17%, 0.15%, 0.09% and 0.09% respectively.

(2) Analyzed by movements in carrying amount :

| The Bank | Stage 1 | Stage 2 | Stage 3 | |
|---|---|---|---|---|
| | 12-month ECL | Lifetime ECL | Lifetime ECL | Total |
| As at January 1, 2018 | 60,513,667 | 531,496 | — | 61,045,163 |
| Originated or purchased | 20,765,054 | — | — | 20,765,054 |
| Repayment and transfer out | (13,757,408) | (127,579) | — | (13,884,987) |
| Net transfers in : | | | | |
| — Stage 1 | (112,004) | — | — | (112,004) |
| — Stage 2 | — | 112,004 | — | 112,004 |
| — Stage 3 | — | — | — | — |
| As at December 31, 2018 | 67,409,309 | 515,921 | — | 67,925,230 |

| The Bank | Stage 1 | Stage 2 | Stage 3 | |
|---|---|---|---|---|
| | 12-month ECL | Lifetime ECL | Lifetime ECL | Total |
| As at January 1, 2019 | 67,409,309 | 515,921 | — | 67,925,230 |
| Originated or purchased | 28,862,237 | — | — | 28,862,237 |
| Repayment and transfer out | (16,072,524) | (127,737) | — | (16,200,261) |
| Net transfers in : | | | | |
| — Stage 1 | 170,826 | — | — | 170,826 |
| — Stage 2 | — | (170,826) | — | (170,826) |
| — Stage 3 | — | — | — | — |
| As at December 31, 2019 | 80,369,848 | 217,358 | — | 80,587,206 |
| As at January 1, 2020 | 80,369,848 | 217,358 | — | 80,587,206 |
| Originated or purchased | 18,263,740 | — | — | 18,263,740 |
| Repayment and transfer out | (19,979,501) | (76,760) | — | (20,056,261) |
| Net transfers in : | | | | |
| — Stage 1 | (40,403) | — | — | (40,403) |
| — Stage 2 | — | 40,403 | — | 40,403 |
| — Stage 3 | — | — | — | — |
| As at December 31, 2020 | 78,613,684 | 181,001 | — | 78,794,685 |
| As at January 1, 2021 | 78,613,684 | 181,001 | — | 78,794,685 |
| Originated or purchased | 5,281,049 | 2,708 | — | 5,283,757 |
| Repayment and transfer out | (1,905,500) | — | — | (1,905,500) |
| Net transfers in : | | | | |
| — Stage 1 | (40,671) | — | — | (40,671) |
| — Stage 2 | — | 40,671 | — | 40,671 |
| — Stage 3 | — | — | — | — |
| As at March 31, 2021 | 81,948,562 | 224,380 | — | 82,172,942 |

**18.3 Financial investments at fair value through other comprehensive income**

| The Group | As at December 31, | | | As at March 31, |
|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 |
| Debt instrument investments at fair value through other comprehensive income | | | | |
| Listed in Mainland China | | | | |
| — Government bonds | 22,120,073 | 24,919,324 | 43,264,031 | 42,828,623 |
| — Financial institution bonds | 9,503,956 | 14,768,456 | 16,892,014 | 22,456,150 |
| — Corporate bonds | 50,248,939 | 31,634,426 | 16,826,156 | 13,207,300 |
| — Interbank certificates of deposit | 192,774 | 3,660,873 | 342,939 | 3,069,906 |
| Sub-total | 82,065,742 | 74,983,079 | 77,325,140 | 81,561,979 |

| The Group | As at December 31, | | | As at March 31, |
|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 |
| Unlisted | | | | |
| — Direct financing instruments for wealth management products("WMPs") | 625,165 | 603,853 | 222,000 | 223,443 |
| — Rights to earnings on credit assets (18.1(a)) | 936,363 | 594,251 | 446,175 | 272,591 |
| Sub-total | 1,561,528 | 1,198,104 | 668,175 | 496,034 |
| Equity instruments designated at fair value through other comprehensive income | | | | |
| — Unlisted equity investments | 611,943 | 563,149 | 566,705 | 575,204 |
| Accrued interest | 1,803,891 | 1,606,553 | 1,383,581 | 1,505,805 |
| **Total** | 86,043,104 | 78,350,885 | 79,943,601 | 84,139,022 |

(1) Analyzed by movements in loss allowance :

| The Group | Stage 1 | Stage 2 | Stage 3 | |
|---|---|---|---|---|
| | 12-month ECL | Lifetime ECL | Lifetime ECL | Total |
| As at January 1, 2018 | 113,470 | 69,396 | — | 182,866 |
| Originated or purchased | 80,173 | — | — | 80,173 |
| Repayment and transfer out | (48,824) | (14,790) | — | (63,614) |
| Remeasurement[(i)] | (6,413) | 31,722 | 551,692 | 577,001 |
| Net transfers in : | | | | |
| — Stage 1 | 14,042 | — | — | 14,042 |
| — Stage 2 | — | (15,808) | — | (15,808) |
| — Stage 3 | — | — | 1,766 | 1,766 |
| As at December 31, 2018 | 152,448 | 70,520 | 553,458 | 776,426 |
| As at January 1, 2019 | 152,448 | 70,520 | 553,458 | 776,426 |
| Originated or purchased | 26,601 | — | — | 26,601 |
| Repayment and transfer out | (75,472) | (8,822) | — | (84,294) |
| Remeasurement[(i)] | 39,743 | 455,012 | 1,260,680 | 1,755,435 |
| Net transfers in : | | | | |
| — Stage 1 | (4,920) | — | — | (4,920) |
| — Stage 2 | — | (16,777) | — | (16,777) |
| — Stage 3 | — | — | 21,697 | 21,697 |
| As at December 31, 2019 | 138,400 | 499,933 | 1,835,835 | 2,474,168 |

| The Group | Stage 1 | Stage 2 | Stage 3 | |
|---|---|---|---|---|
| | 12-month ECL | Lifetime ECL | Lifetime ECL | Total |
| As at January 1, 2020 | 138,400 | 499,933 | 1,835,835 | 2,474,168 |
| Originated or purchased | 42,990 | — | — | 42,990 |
| Repayment and transfer out | (78,151) | (237,291) | (37,867) | (353,309) |
| Remeasurement(i) | (34,157) | (44,668) | 483,038 | 404,213 |
| Net transfers in : | | | | |
| — Stage 1 | 47,369 | — | — | 47,369 |
| — Stage 2 | — | (58,140) | — | (58,140) |
| — Stage 3 | — | — | 10,771 | 10,771 |
| As at December 31, 2020 | 116,451 | 159,834 | 2,291,777 | 2,568,062 |
| As at January 1, 2021 | 116,451 | 159,834 | 2,291,777 | 2,568,062 |
| Originated or purchased | 24,612 | — | — | 24,612 |
| Repayment and transfer out | (14,645) | (4,065) | (56,157) | (74,867) |
| Remeasurement(i) | (20,328) | 10,960 | 160,973 | 151,605 |
| Net transfers in : | | | | |
| — Stage 1 | 19,256 | — | — | 19,256 |
| — Stage 2 | — | (19,256) | — | (19,256) |
| — Stage 3 | — | — | — | — |
| As at March 31, 2021 | 125,346 | 147,473 | 2,396,593 | 2,669,412 |

(i) Remeasurement are caused by parameter changes or transfers between stages.

(2) Analyzed by movements in carrying amount:

| The Group | Stage 1 | Stage 2 | Stage 3 | |
|---|---|---|---|---|
| | 12-month ECL | Lifetime ECL | Lifetime ECL | Total |
| As at January 1, 2018 | 83,110,038 | 3,206,850 | — | 86,316,888 |
| Originated or purchased | 35,671,594 | — | — | 35,671,594 |
| Repayment and transfer out | (35,457,925) | (1,099,396) | — | (36,557,321) |
| Net transfers in : | | | | |
| — Stage 1 | (561,605) | — | — | (561,605) |
| — Stage 2 | — | 485,196 | — | 485,196 |
| — Stage 3 | — | — | 76,409 | 76,409 |
| As at December 31, 2018 | 82,762,102 | 2,592,650 | 76,409 | 85,431,161 |

| The Group | Stage 1 | Stage 2 | Stage 3 | |
|---|---|---|---|---|
| | 12-month ECL | Lifetime ECL | Lifetime ECL | Total |
| As at January 1, 2019 | 82,762,102 | 2,592,650 | 76,409 | 85,431,161 |
| Originated or purchased | 28,667,031 | — | — | 28,667,031 |
| Repayment and transfer out | (34,836,278) | (626,185) | (847,993) | (36,310,456) |
| Net transfers in : | | | | |
| — Stage 1 | (1,430,121) | — | — | (1,430,121) |
| — Stage 2 | — | 185,246 | — | 185,246 |
| — Stage 3 | — | — | 1,244,875 | 1,244,875 |
| As at December 31, 2019 | 75,162,734 | 2,151,711 | 473,291 | 77,787,736 |
| As at January 1, 2020 | 75,162,734 | 2,151,711 | 473,291 | 77,787,736 |
| Acquisition of a subsidiary(i) | 195,850 | — | — | 195,850 |
| Originated or purchased | 46,671,785 | — | — | 46,671,785 |
| Repayment and transfer out | (43,827,587) | (1,172,095) | (278,793) | (45,278,475) |
| Net transfers in : | | | | |
| — Stage 1 | (802,721) | — | — | (802,721) |
| — Stage 2 | — | 186,069 | — | 186,069 |
| — Stage 3 | — | — | 616,652 | 616,652 |
| As at December 31, 2020 | 77,400,061 | 1,165,685 | 811,150 | 79,376,896 |
| As at January 1, 2021 | 77,400,061 | 1,165,685 | 811,150 | 79,376,896 |
| Originated or purchased | 13,061,000 | — | — | 13,061,000 |
| Repayment and transfer out | (8,538,564) | (22,864) | (312,650) | (8,874,078) |
| Net transfers in : | | | | |
| — Stage 1 | 210,300 | — | — | 210,300 |
| — Stage 2 | — | (210,629) | — | (210,629) |
| — Stage 3 | — | — | 329 | 329 |
| As at March 31, 2021 | 82,132,797 | 932,192 | 498,829 | 83,563,818 |

(i) The financial investments acquired from the subsidiary in 2020 are mainly interbank certificates of deposits and classified in stage 1.

| The Bank | As at December 31, | | | As at March 31, |
|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 |
| Debt instrument investments at fair value through other comprehensive income | | | | |
| Listed in Mainland China | | | | |
| — Government bonds | 21,817,328 | 24,686,438 | 42,422,185 | 41,358,773 |
| — Financial institution bonds | 9,371,319 | 14,363,394 | 15,331,408 | 18,831,460 |
| — Corporate bonds | 49,152,915 | 30,666,255 | 16,104,687 | 12,805,419 |
| — Interbank certificates of deposit | 192,774 | 3,544,710 | — | — |
| Sub-total | 80,534,336 | 73,260,797 | 73,858,280 | 72,995,652 |

| The Bank | As at December 31, | | | As at March 31, |
|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 |
| Unlisted | | | | |
| — Direct financing instruments for WMPs | 625,165 | 603,853 | 222,000 | 223,443 |
| — Rights to earnings on credit assets (18.1(a)) | 436,363 | 218,623 | 446,175 | 272,591 |
| Sub-total | 1,061,528 | 822,476 | 668,175 | 496,034 |
| Equity instruments designated at fair value through other comprehensive income | | | | |
| — Unlisted equity investments | 611,943 | 555,149 | 557,705 | 558,293 |
| Accrued interest | 1,738,380 | 1,546,782 | 1,323,146 | 1,308,118 |
| **Total** | 83,946,187 | 76,185,204 | 76,407,306 | 75,358,097 |

(1) Analysis by movements in loss allowance :

| The Bank | Stage 1 | Stage 2 | Stage 3 | |
|---|---|---|---|---|
| | 12-month ECL | Lifetime ECL | Lifetime ECL | Total |
| As at January 1, 2018 | 112,118 | 69,396 | — | 181,514 |
| Originated or purchased | 74,833 | — | — | 74,833 |
| Repayment and transfer out | (47,784) | (14,790) | — | (62,574) |
| Remeasurement[(i)] | (6,469) | 29,864 | 551,692 | 575,087 |
| Net transfers in : | | | | |
| — Stage 1 | 14,202 | — | — | 14,202 |
| — Stage 2 | — | (15,968) | — | (15,968) |
| — Stage 3 | — | — | 1,766 | 1,766 |
| As at December 31, 2018 | 146,900 | 68,502 | 553,458 | 768,860 |
| As at January 1, 2019 | 146,900 | 68,502 | 553,458 | 768,860 |
| Originated or purchased | 22,676 | — | — | 22,676 |
| Repayment and transfer out | (71,746) | (8,467) | — | (80,213) |
| Remeasurement[(i)] | 40,593 | 427,119 | 1,260,680 | 1,728,392 |
| Net transfers in : | | | | |
| — Stage 1 | (5,918) | — | — | (5,918) |
| — Stage 2 | — | (15,779) | — | (15,779) |
| — Stage 3 | — | — | 21,697 | 21,697 |
| As at December 31, 2019 | 132,505 | 471,375 | 1,835,835 | 2,439,715 |

| The Bank | Stage 1 | Stage 2 | Stage 3 | |
|---|---|---|---|---|
| | 12-month ECL | Lifetime ECL | Lifetime ECL | Total |
| As at January 1, 2020 | 132,505 | 471,375 | 1,835,835 | 2,439,715 |
| Originated or purchased | 37,126 | — | — | 37,126 |
| Repayment and transfer out | (74,007) | (208,733) | (37,867) | (320,607) |
| Remeasurement[(i)] | (33,848) | (44,668) | 483,038 | 404,522 |
| Net transfers in : | | | | |
| — Stage 1 | 47,369 | — | — | 47,369 |
| — Stage 2 | — | (58,140) | — | (58,140) |
| — Stage 3 | — | — | 10,771 | 10,771 |
| As at December 31, 2020 | 109,145 | 159,834 | 2,291,777 | 2,560,756 |
| As at January 1, 2021 | 109,145 | 159,834 | 2,291,777 | 2,560,756 |
| Originated or purchased | 14,669 | — | — | 14,669 |
| Repayment and transfer out | (13,489) | (4,065) | (56,157) | (73,711) |
| Remeasurement[(i)] | (20,804) | 10,960 | 160,973 | 151,129 |
| Net transfers in : | | | | |
| — Stage 1 | 19,256 | — | — | 19,256 |
| — Stage 2 | — | (19,256) | — | (19,256) |
| As at March 31, 2021 | 108,777 | 147,473 | 2,396,593 | 2,652,843 |

(i) Remeasurement are caused by parameter changes or transfers between stages.

(2) Analyzed by movements in carrying amount:

| The Bank | Stage 1 | Stage 2 | Stage 3 | |
|---|---|---|---|---|
| | 12-month ECL | Lifetime ECL | Lifetime ECL | Total |
| As at January 1, 2018 | 82,314,245 | 3,206,850 | — | 85,521,095 |
| Originated or purchased | 33,981,885 | — | — | 33,981,885 |
| Repayment and transfer out | (35,069,340) | (1,099,396) | — | (36,168,736) |
| Net transfers in: | | | | |
| — Stage 1 | (509,445) | — | — | (509,445) |
| — Stage 2 | — | 433,036 | — | 433,036 |
| — Stage 3 | — | — | 76,409 | 76,409 |
| As at December 31, 2018 | 80,717,345 | 2,540,490 | 76,409 | 83,334,244 |

| The Bank | Stage 1 | Stage 2 | Stage 3 | |
|---|---|---|---|---|
| | 12-month ECL | Lifetime ECL | Lifetime ECL | Total |
| As at January 1, 2019 | 80,717,345 | 2,540,490 | 76,409 | 83,334,244 |
| Originated or purchased | 27,407,177 | — | — | 27,407,177 |
| Repayment and transfer out | (33,658,277) | (605,096) | (847,993) | (35,111,366) |
| Net transfers in: | | | | |
| — Stage 1 | (1,253,142) | — | — | (1,253,142) |
| — Stage 2 | — | 8,267 | — | 8,267 |
| — Stage 3 | — | — | 1,244,875 | 1,244,875 |
| As at December 31, 2019 | 73,213,103 | 1,943,661 | 473,291 | 75,630,055 |
| As at January 1, 2020 | 73,213,103 | 1,943,661 | 473,291 | 75,630,055 |
| Originated or purchased | 44,048,220 | — | — | 44,048,220 |
| Repayment and transfer out | (42,585,835) | (964,046) | (278,793) | (43,828,674) |
| Net transfers in: | | | | |
| — Stage 1 | (802,721) | — | — | (802,721) |
| — Stage 2 | — | 186,069 | — | 186,069 |
| — Stage 3 | — | — | 616,652 | 616,652 |
| As at December 31, 2020 | 73,872,767 | 1,165,684 | 811,150 | 75,849,601 |
| As at January 1, 2021 | 73,872,767 | 1,165,684 | 811,150 | 75,849,601 |
| Originated or purchased | 7,311,933 | — | — | 7,311,933 |
| Repayment and transfer out | (8,033,457) | (15,623) | (312,650) | (8,361,730) |
| Net transfers in: | | | | |
| — Stage 1 | 210,300 | — | — | 210,300 |
| — Stage 2 | — | (210,629) | — | (210,629) |
| — Stage 3 | — | — | 329 | 329 |
| As at March 31, 2021 | 73,361,543 | 939,432 | 498,829 | 74,799,804 |

## 19 Subsidiaries

| | As at December 31, | | | As at March 31, |
|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 |
| Investment cost | 290,000 | 1,917,760 | 3,735,487 | 3,735,487 |

Subsidiaries invested by the Bank are set out below:

| Name of entity | Date and place of incorporation/ establishment | Authorized/ paid-in capital | Percentage of equity interest (%)/ voting rights (%) December 31, 2018 | December 31, 2019 | December 31, 2020 | March 31, 2021 | Principal activities |
|---|---|---|---|---|---|---|---|
| Huizhou Zhongkai Dongying County Bank Company Limited | December 13, 2010 Huizhou, Guangdong | RMB 300,000,000 | 51.00% | 51.00% | 51.00% | 51.00% | Banking |
| Yunfu Xinxing Dongying County Bank Company Limited | December 23, 2011 Yunfu, Guangdong | RMB 100,000,000 | 51.00% | 51.00% | 51.00% | 51.00% | Banking |
| Hezhou Babu Dongying County Bank Company Limited | August 8, 2012 Hezhou, Guangxi | RMB 100,000,000 | 51.00% | 51.00% | 51.00% | 51.00% | Banking |
| Dongguan Dalang Dongying County Bank Company Limited(a) | June 25, 2012 Dongguan, Guangdong | RMB 100,000,000 | 35.00% | 35.00% | 35.00% | 35.00% | Banking |
| Zhanjiang Rural Commercial Bank Co., Ltd. (b and Note 38) | October 26, 2019 Zhanjiang, Guangdong | RMB 1,655,000,000 | N/A | 49.41% | 49.41% | 49.41% | Banking |
| Guangdong Chaoyang Rural Commercial Bank Co., Ltd. (Note 38) | December 27, 2020 Shantou, Guangdong | RMB 1,202,000,000 | N/A | N/A | 67.03% | 67.03% | Banking |

(a) Dongguan Dalang Dongying County Bank Company Limited is a joint venture formed by the Bank and other 12 legal person shareholders, and the Bank holds 35% of its equity interests. The shareholders holding 16% of equity interest in Dongguan Dalang Dongying County Bank Company Limited agreed to vote in the direction of the Bank. Accordingly, the Bank effectively controls over Dongguan Dalang Dongying County Bank Company Limited through 51% of the voting rights.

(b) Zhanjiang Rural Commercial Bank Co., Ltd. ("Zhanjiang RCB") was formed as a result of a combination of Zhanjiang City Donghai Island Economic Development Test Zone Rural Credit Cooperatives Union ("Donghai Union"), Zhanjiang City Chikan District Rural Credit Cooperatives Union ("Chikan Union"), Zhanjiang City Potou District Rural Credit Cooperatives Union ("Potou Union"), Zhanjiang City Mazhang District Rural Credit Cooperatives Union ("Mazhang Union). The Bank and other new investors invested by cash injection, while Donghai Union, Chikan Union, Potou Union and Mazhang Union invested by all the shares of each unions. The business combination was completed on October 26, 2019. Upon the acquisition, the Bank holds 49.41% shares and the remaining shareholdings are widely dispersed. Therefore, the Bank controls Zhanjiang RCB.

(c) For the years ended December 31, 2018, 2019 and 2020, the statutory auditor of Huizhou Zhongkai Dongying County Bank Company Limited, Hezhou Babu Dongying County Bank Company Limited, Yunfu Xinxing Dongying County Bank Company Limited and Dongguan Dalang Dongying County Bank Company Limited is Pan-China Certified Public Accountants. For the years ended December 31, 2019 and 2020, the statutory auditor of Zhanjiang Rural Commercial Bank Co., Ltd. is Pan-China Certified Public Accountants. For the year ended December 31, 2020, the statutory auditor of Guangdong Chaoyang Rural Commercial Bank Co., Ltd. is BDO China Shu Lun Pan Certified Public Accountants.

(d) As at December 31, 2018, 2019 and 2020 and March 31, 2021, the amount of the non-controlling interests of the subsidiaries was not material to the Group.

## 20 Share of profits of associates

| The Group and the Bank | Years ended December 31, | | | Three months ended March 31, |
|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 |
| Opening balance | 254,859 | 267,662 | 430,645 | 432,990 |
| Increase (Note(b), (c)) | — | 143,211 | — | — |
| Share of net profits | 23,048 | 34,847 | 24,284 | 15,680 |
| Dividends received | (10,245) | (15,075) | (21,939) | — |
| Ending balance | 267,662 | 430,645 | 432,990 | 448,670 |

The Group's investments in associates are ordinary shares of non-listed companies, and the results of these associates and their assets and liabilities are summarised below:

| Investee | Place of registration | Assets | Net assets | Revenue for the current year/ period | Net profit for the current year/ period | Shareholding (%) | Share of net profits |
|---|---|---|---|---|---|---|---|
| **As at December 31, 2018** | | | | | | | |
| Yaan Rural Commercial Bank Co., Ltd.[(a)] | Yaan, Sichuan | 20,690,140 | 1,784,413 | 601,494 | 153,653 | 15.00% | 23,048 |
| **As at December 31, 2019** | | | | | | | |
| Yaan Rural Commercial Bank Co., Ltd.[(a)] | Yaan, Sichuan | 22,677,824 | 1,854,303 | 977,690 | 155,697 | 15.00% | 23,355 |
| Guangdong Lechang Rural Commercial Bank Co., Ltd.[(b)] | Lechang, Guangdong | 9,129,434 | 873,221 | 228,897 | 66,697 | 8.00% | 5,335 |
| Guangdong Xuwen Rural Commercial Bank Co., Ltd.[(c)] | Xuwen, Guangdong | 9,856,454 | 724,808 | 333,716 | 77,546 | 7.94% | 6,157 |
| **As at December 31, 2020** | | | | | | | |
| Yaan Rural Commercial Bank Co., Ltd.[(a)] | Yaan, Sichuan | 24,099,283 | 1,916,502 | 1,015,102 | 97,472 | 15.00% | 14,621 |
| Guangdong Lechang Rural Commercial Bank Co., Ltd.[(b)] | Lechang, Guangdong | 9,416,615 | 902,626 | 211,515 | 58,357 | 8.00% | 4,669 |
| Guangdong Xuwen Rural Commercial Bank Co., Ltd.[(c)] | Xuwen, Guangdong | 10,207,552 | 735,392 | 323,959 | 62,891 | 7.94% | 4,994 |

| Investee | Place of registration | Assets | Net assets | Revenue for the current year/ period | Net profit for the current year/ period | Shareholding (%) | Share of net profits |
|---|---|---|---|---|---|---|---|
| **As at March 31, 2021** | | | | | | | |
| Yaan Rural Commercial Bank Co., Ltd.[(a)] | Yaan, Sichuan | 27,170,960 | 1,958,990 | 248,302 | 87,741 | 15.00% | 13,162 |
| Guangdong Lechang Rural Commercial Bank Co., Ltd.[(b)] | Lechang, Guangdong | 9,280,237 | 861,643 | 49,483 | 15,775 | 8.00% | 1,262 |
| Guangdong Xuwen Rural Commercial Bank Co., Ltd.[(c)] | Xuwen, Guangdong | 10,616,607 | 758,035 | 79,279 | 15,821 | 7.94% | 1,256 |

(a) One of the nine members of the board of directors of Yaan Rural Commercial Bank Co., Ltd ("Yaan RCB") is a representative of the Group, therefore the Group is able to exercise significant influence over Yaan RCB and accounts for Yaan RCB as an associate.

(b) In March 2019, the Group invested in Guangdong Lechang Rural Commercial Bank Co., Ltd ("Lechang RCB") by cash amounted to RMB 83.6 million. A representative of the Group was elected as one of the nine members of the board of directors of Lechang RCB, therefore the Group is able to exercise significant influence over Lechang RCB and accounts for Lechang RCB as an associate.

(c) Prior to August 2019, the Group held 9.8% shares of Guangdong Xuwen Rural Commercial Bank Co., Ltd ("Xuwen RCB") with no representative in the board of director. After the restructuring of Xuwen RCB in August 2019, the Group holds 7.94% shares of Xuwen RCB amounted to RMB59.6 million, a representative of the Group was elected as one of the eight members of the board of directors of Xuwen RCB. Subsequently, the Group is able to exercise significant influence over Xuwen RCB and started to account for Xuwen RCB as an associate.

## 21 Property and equipment

| The Group | Buildings | Decoration and renovation | Motor vehicles | Machinery and equipment | Electronic equipment | Other equipment | Construction in progress | Total |
|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | |
| As at January 1, 2018 | 1,864,167 | 45,960 | 35,907 | 91,395 | 769,498 | 113,323 | 170,986 | 3,091,236 |
| Addition | 8,389 | — | 3,029 | 2,002 | 34,161 | 6,531 | 32,097 | 86,209 |
| Transfers in/(out) | 46,556 | — | 228 | — | 1,216 | — | (48,000) | — |
| Disposal | (30,266) | (1,015) | (720) | (1,937) | (55,116) | (1,421) | — | (90,475) |
| As at December 31, 2018 | 1,888,846 | 44,945 | 38,444 | 91,460 | 749,759 | 118,433 | 155,083 | 3,086,970 |
| **Accumulated depreciation** | | | | | | | | |
| As at January 1, 2018 | (745,298) | (23,480) | (29,373) | (45,791) | (682,578) | (87,610) | — | (1,614,130) |
| Depreciation | (79,534) | (3,060) | (3,632) | (12,971) | (57,076) | (5,384) | — | (161,657) |
| Disposal | 24,740 | 1,015 | 720 | 1,937 | 55,110 | 1,418 | — | 84,940 |
| As at December 31, 2018 | (800,092) | (25,525) | (32,285) | (56,825) | (684,544) | (91,576) | — | (1,690,847) |
| **Net book value** | | | | | | | | |
| As at December 31, 2018 | 1,088,754 | 19,420 | 6,159 | 34,635 | 65,215 | 26,857 | 155,083 | 1,396,123 |
| **Cost** | | | | | | | | |
| As at January 1, 2019 | 1,888,846 | 44,945 | 38,444 | 91,460 | 749,759 | 118,433 | 155,083 | 3,086,970 |
| Acquisition of a subsidiary | 157,330 | — | 1,536 | 2,936 | 2,333 | 2,757 | — | 166,892 |
| Addition | 7,582 | 18 | 756 | 2,931 | 12,516 | 7,903 | 149,119 | 180,825 |
| Transfers in/(out) | 13,394 | — | 230 | 5,524 | 2,440 | 998 | (22,586) | — |
| Disposal | (53,305) | (1,338) | (1,082) | (471) | (10,548) | (12,137) | — | (78,881) |
| As at December 31, 2019 | 2,013,847 | 43,625 | 39,884 | 102,380 | 756,500 | 117,954 | 281,616 | 3,355,806 |
| **Accumulated depreciation** | | | | | | | | |
| As at January 1, 2019 | (800,092) | (25,525) | (32,285) | (56,825) | (684,544) | (91,576) | — | (1,690,847) |
| Depreciation | (75,387) | (1,765) | (3,061) | (7,824) | (46,668) | (20,794) | — | (155,499) |
| Disposal | 48,571 | 1,131 | 1,081 | 377 | 9,996 | 7,022 | — | 68,178 |
| As at December 31, 2019 | (826,908) | (26,159) | (34,265) | (64,272) | (721,216) | (105,348) | — | (1,778,168) |
| **Net book value** | | | | | | | | |
| As at December 31, 2019 | 1,186,939 | 17,466 | 5,619 | 38,108 | 35,284 | 12,606 | 281,616 | 1,577,638 |

| The Group | Buildings | Decoration and renovation | Motor vehicles | Machinery and equipment | Electronic equipment | Other equipment | Construction in progress | Total |
|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | |
| As at January 1, 2020 | 2,013,847 | 43,625 | 39,884 | 102,380 | 756,500 | 117,954 | 281,616 | 3,355,806 |
| Acquisition of a subsidiary | 489,178 | — | 1,351 | 770 | 1,674 | 639 | — | 493,612 |
| Addition | 18,453 | 72 | 3,002 | 8,370 | 34,246 | 19,162 | 445,630 | 528,935 |
| Transfers in/(out) | 8,624 | — | — | 139 | 3,918 | 3,379 | (16,060) | — |
| Disposal | (33,514) | — | (4,580) | (4,083) | (8,829) | (10,080) | — | (61,086) |
| As at December 31, 2020 | 2,496,588 | 43,697 | 39,657 | 107,576 | 787,509 | 131,054 | 711,186 | 4,317,267 |
| **Accumulated depreciation** | | | | | | | | |
| As at January 1, 2020 | (826,908) | (26,159) | (34,265) | (64,272) | (721,216) | (105,348) | — | (1,778,168) |
| Depreciation | (75,405) | (1,520) | (3,097) | (9,097) | (26,523) | (26,530) | — | (142,172) |
| Disposal | 22,467 | — | 1,865 | 1,499 | 3,393 | 6,973 | — | 36,197 |
| As at December 31, 2020 | (879,846) | (27,679) | (35,497) | (71,870) | (744,346) | (124,905) | — | (1,884,143) |
| **Provision for impairment losses** | | | | | | | | |
| As at January 1, 2020 | — | — | — | — | — | — | — | — |
| Charge for the year | (351) | — | — | — | — | — | — | (351) |
| As at December 31, 2020 | (351) | — | — | — | — | — | — | (351) |
| **Net book value** | | | | | | | | |
| As at December 31, 2020 | 1,616,391 | 16,018 | 4,160 | 35,706 | 43,163 | 6,149 | 711,186 | 2,432,773 |
| **Cost** | | | | | | | | |
| As at January 1, 2021 | 2,496,588 | 43,697 | 39,657 | 107,576 | 787,509 | 131,054 | 711,186 | 4,317,267 |
| Addition | 245 | — | 214 | 616 | 13,422 | 2,187 | 98,443 | 115,127 |
| Transfers in/(out) | 15,218 | — | — | — | 742 | 221 | (16,181) | — |
| Disposal | (2,787) | (72) | (1,468) | (4,714) | (19,140) | (623) | — | (28,804) |
| As at March 31, 2021 | 2,509,264 | 43,625 | 38,403 | 103,478 | 782,533 | 132,839 | 793,448 | 4,403,590 |
| **Accumulated depreciation** | | | | | | | | |
| As at January 1, 2021 | (879,846) | (27,679) | (35,497) | (71,870) | (744,346) | (124,905) | — | (1,884,143) |
| Depreciation | (52,553) | (364) | (831) | (2,327) | (7,039) | (5,229) | — | (68,343) |
| Disposal | 1,818 | 7 | 170 | 2,652 | 10,692 | 608 | — | 15,947 |
| As at March 31, 2021 | (930,581) | (28,036) | (36,158) | (71,545) | (740,693) | (129,526) | — | (1,936,539) |

| The Group | Buildings | Decoration and renovation | Motor vehicles | Machinery and equipment | Electronic equipment | Other equipment | Construction in progress | Total |
|---|---|---|---|---|---|---|---|---|
| **Provision for impairment losses** | | | | | | | | |
| As at January 1, 2021 | (351) | — | — | — | — | — | — | (351) |
| Charge for the year | — | — | — | — | — | — | — | — |
| As at March 31, 2021 | (351) | — | — | — | — | — | — | (351) |
| **Net book value** | | | | | | | | |
| As at March 31, 2021 | 1,578,332 | 15,589 | 2,245 | 31,933 | 41,840 | 3,313 | 793,448 | 2,466,700 |

| The Bank | Buildings | Decoration and renovation | Motor vehicles | Machinery and equipment | Electronic equipment | Other equipment | Construction in progress | Total |
|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | |
| As at January 1, 2018 | 1,864,167 | 45,960 | 34,361 | 91,395 | 763,891 | 111,988 | 160,938 | 3,072,700 |
| Addition | 3,970 | — | 2,674 | 2,002 | 33,418 | 6,327 | 30,929 | 79,320 |
| Transfers in/(out) | 35,340 | — | 228 | — | 1,216 | — | (36,784) | — |
| Disposal | (30,267) | (1,015) | (720) | (1,937) | (55,116) | (1,421) | — | (90,476) |
| As at December 31, 2018 | 1,873,210 | 44,945 | 36,543 | 91,460 | 743,409 | 116,894 | 155,083 | 3,061,544 |
| **Accumulated depreciation** | | | | | | | | |
| As at January 1, 2018 | (745,298) | (23,480) | (28,293) | (45,791) | (678,294) | (86,765) | — | (1,607,921) |
| Depreciation | (78,864) | (3,060) | (3,421) | (12,971) | (56,254) | (5,235) | — | (159,805) |
| Disposal | 24,740 | 1,015 | 720 | 1,937 | 55,110 | 1,418 | — | 84,940 |
| As at December 31, 2018 | (799,422) | (25,525) | (30,994) | (56,825) | (679,438) | (90,582) | — | (1,682,786) |
| **Net book value** | | | | | | | | |
| As at December 31, 2018 | 1,073,788 | 19,420 | 5,549 | 34,635 | 63,971 | 26,312 | 155,083 | 1,378,758 |
| **Cost** | | | | | | | | |
| As at January 1, 2019 | 1,873,210 | 44,945 | 36,543 | 91,460 | 743,409 | 116,894 | 155,083 | 3,061,544 |
| Addition | 7,582 | 18 | 723 | 2,931 | 12,102 | 7,649 | 149,120 | 180,125 |
| Transfers in/(out) | 13,394 | — | 230 | 5,524 | 2,440 | 998 | (22,586) | — |
| Disposal | (53,305) | (1,338) | (1,050) | (471) | (10,454) | (12,057) | — | (78,675) |
| As at December 31, 2019 | 1,840,881 | 43,625 | 36,446 | 99,444 | 747,497 | 113,484 | 281,617 | 3,162,994 |

| The Bank | Buildings | Decoration and renovation | Motor vehicles | Machinery and equipment | Electronic equipment | Other equipment | Construction in progress | Total |
|---|---|---|---|---|---|---|---|---|
| **Accumulated depreciation** | | | | | | | | |
| As at January 1, 2019 | (799,422) | (25,525) | (30,994) | (56,825) | (679,438) | (90,582) | — | (1,682,786) |
| Depreciation | (74,228) | (1,765) | (2,605) | (7,646) | (45,584) | (20,429) | — | (152,257) |
| Disposal | 48,571 | 1,131 | 1,050 | 377 | 9,902 | 7,022 | — | 68,053 |
| As at December 31, 2019 | (825,079) | (26,159) | (32,549) | (64,094) | (715,120) | (103,989) | — | (1,766,990) |
| **Net book value** | | | | | | | | |
| As at December 31, 2019 | 1,015,802 | 17,466 | 3,897 | 35,350 | 32,377 | 9,495 | 281,617 | 1,396,004 |
| **Cost** | | | | | | | | |
| As at January 1, 2020 | 1,840,881 | 43,625 | 36,446 | 99,444 | 747,497 | 113,484 | 281,617 | 3,162,994 |
| Addition | 7,522 | 72 | 2,497 | 8,223 | 33,359 | 17,407 | 441,158 | 510,238 |
| Transfers in/(out) | 8,624 | — | — | — | 2,501 | 3,302 | (14,427) | — |
| Disposal | (31,630) | — | (509) | (1,240) | (5,331) | (8,202) | — | (46,912) |
| As at December 31, 2020 | 1,825,397 | 43,697 | 38,434 | 106,427 | 778,026 | 125,991 | 708,348 | 3,626,320 |
| **Accumulated depreciation** | | | | | | | | |
| As at January 1, 2020 | (825,079) | (26,159) | (32,549) | (64,094) | (715,120) | (103,989) | — | (1,766,990) |
| Depreciation | (66,789) | (1,520) | (2,095) | (8,152) | (24,503) | (23,850) | — | (126,909) |
| Disposal | 20,720 | — | 509 | 312 | 1,447 | 5,204 | — | 28,192 |
| As at December 31, 2020 | (871,148) | (27,679) | (34,135) | (71,934) | (738,176) | (122,635) | — | (1,865,707) |
| **Net book value** | | | | | | | | |
| As at December 31, 2020 | 954,249 | 16,018 | 4,299 | 34,493 | 39,850 | 3,356 | 708,348 | 1,760,613 |
| **Cost** | | | | | | | | |
| As at January 1, 2021 | 1,825,397 | 43,697 | 38,434 | 106,427 | 778,026 | 125,991 | 708,348 | 3,626,320 |
| Addition | — | — | 214 | 544 | 10,463 | 2,083 | 98,173 | 111,477 |
| Transfers in/(out) | 15,218 | — | — | — | 742 | 221 | (16,181) | — |
| Disposal | (400) | (72) | (170) | (451) | (19,063) | (488) | — | (20,644) |
| As at March 31, 2021 | 1,840,215 | 43,625 | 38,478 | 106,520 | 770,168 | 127,807 | 790,340 | 3,717,153 |

| The Bank | Buildings | Decoration and renovation | Motor vehicles | Machinery and equipment | Electronic equipment | Other equipment | Construction in progress | Total |
|---|---|---|---|---|---|---|---|---|
| **Accumulated depreciation** | | | | | | | | |
| As at January 1, 2021 | (871,148) | (27,679) | (34,135) | (71,934) | (738,176) | (122,635) | — | (1,865,707) |
| Depreciation | (17,170) | (364) | (519) | (2,154) | (6,321) | (4,822) | — | (31,350) |
| Disposal | 400 | 7 | 170 | 30 | 10,615 | 488 | — | 11,710 |
| As at March 31, 2021 | (887,918) | (28,036) | (34,484) | (74,058) | (733,882) | (126,969) | — | (1,885,347) |
| **Net book value** | | | | | | | | |
| As at March 31, 2021 | 952,297 | 15,589 | 3,994 | 32,462 | 36,286 | 838 | 790,340 | 1,831,806 |

As at December 31, 2018, 2019 and 2020 and March 31, 2021, properties at original costs of RMB655 million, RMB636 million , RMB616 million and RMB519 million, with net values at RMB419 million, RMB391 million, RMB349 million and RMB290 million respectively, which the Group is still in the process of applying for the ownership certificates.

All properties of the Group and the Bank are located outside Hong Kong.

**22 Right-of-use assets and lease liabilities**

| The Group | Property | Equipment | Land use rights | Total |
|---|---|---|---|---|
| **Right-of-use assets** | | | | |
| **Cost** | | | | |
| As at January 1, 2018 | 509,316 | 10,429 | 465,277 | 985,022 |
| Increase | 31,089 | 3,569 | — | 34,658 |
| Decrease | (17,584) | (10,163) | (13,895) | (41,642) |
| As at December 31, 2018 | 522,821 | 3,835 | 451,382 | 978,038 |
| **Accumulated depreciation** | | | | |
| As at January 1, 2018 | (86,867) | (4,753) | (179,978) | (271,598) |
| Increase | (93,078) | (7,274) | (8,341) | (108,693) |
| Decrease | 17,584 | 10,163 | 6,476 | 34,223 |
| As at December 31, 2018 | (162,361) | (1,864) | (181,843) | (346,068) |
| **Provision for impairment losses** | | | | |
| As at January 1, 2018 | — | — | (2,028) | (2,028) |
| Increase | — | — | — | — |
| Decrease | — | — | 7 | 7 |
| As at December 31, 2018 | — | — | (2,021) | (2,021) |
| **Net book value** | | | | |
| As at December 31, 2018 | 360,460 | 1,971 | 267,518 | 629,949 |
| **Lease liabilities** | | | | |
| **Net book value** | | | | |
| As at December 31, 2018 | 497,656 | 2,311 | — | 499,967 |

| The Group | Property | Equipment | Land use rights | Total |
|---|---|---|---|---|
| **Right-of-use assets** | | | | |
| **Cost** | | | | |
| As at January 1, 2019 | 522,821 | 3,835 | 451,382 | 978,038 |
| Acquisition of a subsidiary | 18,627 | — | 18,539 | 37,166 |
| Increase | 42,745 | 2,297 | 14,468 | 59,510 |
| Decrease | (30,077) | (2,681) | (19,890) | (52,648) |
| As at December 31, 2019 | 554,116 | 3,451 | 464,499 | 1,022,066 |
| **Accumulated depreciation** | | | | |
| As at January 1, 2019 | (162,361) | (1,864) | (181,843) | (346,068) |
| Increase | (94,194) | (2,712) | (8,224) | (105,130) |
| Decrease | 30,077 | 2,681 | 12,297 | 45,055 |
| As at December 31, 2019 | (226,478) | (1,895) | (177,770) | (406,143) |
| **Provision for impairment losses** | | | | |
| As at January 1, 2019 | — | — | (2,021) | (2,021) |
| Increase | — | — | (345) | (345) |
| Decrease | — | — | — | — |
| As at December 31, 2019 | — | — | (2,366) | (2,366) |
| **Net book value** | | | | |
| As at December 31, 2019 | 327,638 | 1,556 | 284,363 | 613,557 |
| **Lease liabilities** | | | | |
| **Net book value** | | | | |
| As at December 31, 2019 | 454,602 | 1,781 | — | 456,383 |

| The Group | Property | Equipment | Land use rights | Total |
|---|---|---|---|---|
| **Right-of-use assets** | | | | |
| **Cost** | | | | |
| As at January 1, 2020 | 554,116 | 3,451 | 464,499 | 1,022,066 |
| Acquisition of a subsidiary | 50,338 | — | — | 50,338 |
| Increase | 50,822 | 3,388 | 7,153 | 61,363 |
| Decrease | (19,552) | (2,687) | (13,544) | (35,783) |
| As at December 31, 2020 | 635,724 | 4,152 | 458,108 | 1,097,984 |
| **Accumulated depreciation** | | | | |
| As at January 1, 2020 | (226,478) | (1,895) | (177,770) | (406,143) |
| Increase | (95,189) | (3,201) | (8,627) | (107,017) |
| Decrease | 19,502 | 2,687 | 7,506 | 29,695 |
| As at December 31, 2020 | (302,165) | (2,409) | (178,891) | (483,465) |
| **Provision for impairment losses** | | | | |
| As at January 1, 2020 | — | — | (2,366) | (2,366) |
| Increase | — | — | — | — |
| Decrease | — | — | 11 | 11 |
| As at December 31, 2020 | — | — | (2,355) | (2,355) |
| **Net book value** | | | | |
| As at December 31, 2020 | 333,559 | 1,743 | 276,862 | 612,164 |
| | | | | |
| **Lease liabilities** | | | | |
| **Net book value** | | | | |
| As at December 31, 2020 | 449,123 | 1,737 | — | 450,860 |

| The Group | Property | Equipment | Land use rights | Total |
|---|---|---|---|---|
| **Right-of-use assets** | | | | |
| **Cost** | | | | |
| As at January 1, 2021 | 635,724 | 4,152 | 458,108 | 1,097,984 |
| Increase | 12,579 | 2,120 | — | 14,699 |
| Decrease | (10,116) | (304) | (1,061) | (11,481) |
| As at March 31, 2021 | 638,187 | 5,968 | 457,047 | 1,101,202 |
| **Accumulated depreciation** | | | | |
| As at January 1, 2021 | (302,165) | (2,409) | (178,891) | (483,465) |
| Increase | (28,301) | (779) | (2,156) | (31,236) |
| Decrease | 10,116 | 304 | 584 | 11,004 |
| As at March 31, 2021 | (320,350) | (2,884) | (180,463) | (503,697) |
| **Provision for impairment losses** | | | | |
| As at January 1, 2021 | — | — | (2,355) | (2,355) |
| Increase | — | — | — | — |
| Decrease | — | — | — | — |
| As at March 31, 2021 | — | — | (2,355) | (2,355) |
| **Net book value** | | | | |
| As at March 31, 2021 | 317,837 | 3,084 | 274,229 | 595,150 |
| **Lease liabilities** | | | | |
| **Net book value** | | | | |
| As at March 31, 2021 | 430,054 | 3,083 | — | 433,137 |

| The Bank | Property | Equipment | Land use rights | Total |
|---|---|---|---|---|
| **Right-of-use assets** | | | | |
| **Cost** | | | | |
| As at January 1, 2018 | 468,996 | 10,429 | 465,277 | 944,702 |
| Increase | 27,714 | 3,569 | — | 31,283 |
| Decrease | (17,119) | (10,163) | (13,895) | (41,177) |
| As at December 31, 2018 | 479,591 | 3,835 | 451,382 | 934,808 |
| **Accumulated depreciation** | | | | |
| As at January 1, 2018 | (80,200) | (4,753) | (179,978) | (264,931) |
| Increase | (85,933) | (7,274) | (8,341) | (101,548) |
| Decrease | 17,119 | 10,163 | 6,473 | 33,755 |
| As at December 31, 2018 | (149,014) | (1,864) | (181,846) | (332,724) |
| **Provision for impairment losses** | | | | |
| As at January 1, 2018 | — | — | (2,028) | (2,028) |
| Increase | — | — | — | — |
| Decrease | — | — | 7 | 7 |
| As at December 31, 2018 | — | — | (2,021) | (2,021) |
| **Net book value** | | | | |
| As at December 31, 2018 | 330,577 | 1,971 | 267,515 | 600,063 |
| **Lease liabilities** | | | | |
| **Net book value** | | | | |
| As at December 31, 2018 | 466,426 | 2,311 | — | 468,737 |

| The Bank | Property | Equipment | Land use rights | Total |
|---|---|---|---|---|
| **Right-of-use assets** | | | | |
| **Cost** | | | | |
| As at January 1, 2019 | 479,591 | 3,835 | 451,382 | 934,808 |
| Increase | 35,595 | 2,297 | 14,468 | 52,360 |
| Decrease | (29,792) | (2,681) | (19,890) | (52,363) |
| As at December 31, 2019 | 485,394 | 3,451 | 445,960 | 934,805 |
| **Accumulated depreciation** | | | | |
| As at January 1, 2019 | (149,014) | (1,864) | (181,846) | (332,724) |
| Increase | (84,703) | (2,712) | (8,148) | (95,563) |
| Decrease | 29,792 | 2,681 | 12,297 | 44,770 |
| As at December 31, 2019 | (203,925) | (1,895) | (177,697) | (383,517) |
| **Provision for impairment losses** | | | | |
| As at January 1, 2019 | — | — | (2,021) | (2,021) |
| Increase | — | — | — | — |
| Decrease | — | — | — | — |
| As at December 31, 2019 | — | — | (2,021) | (2,021) |
| **Net book value** | | | | |
| As at December 31, 2019 | 281,469 | 1,556 | 266,242 | 549,267 |
| **Lease liabilities** | | | | |
| **Net book value** | | | | |
| As at December 31, 2019 | 406,751 | 1,781 | — | 408,532 |

| The Bank | Property | Equipment | Land use rights | Total |
|---|---|---|---|---|
| **Right-of-use assets** | | | | |
| **Cost** | | | | |
| As at January 1, 2020 | 485,394 | 3,451 | 445,960 | 934,805 |
| Increase | 30,140 | 3,388 | 7,153 | 40,681 |
| Decrease | (11,308) | (2,687) | (12,589) | (26,584) |
| As at December 31, 2020 | 504,226 | 4,152 | 440,524 | 948,902 |
| **Accumulated depreciation** | | | | |
| As at January 1, 2020 | (203,925) | (1,895) | (177,697) | (383,517) |
| Increase | (77,532) | (3,201) | (8,128) | (88,861) |
| Decrease | 11,258 | 2,687 | 7,418 | 21,363 |
| As at December 31, 2020 | (270,199) | (2,409) | (178,407) | (451,015) |
| **Provision for impairment losses** | | | | |
| As at January 1, 2020 | — | — | (2,021) | (2,021) |
| Increase | — | — | — | — |
| Decrease | — | — | 11 | 11 |
| As at December 31, 2020 | — | — | (2,010) | (2,010) |
| **Net book value** | | | | |
| As at December 31, 2020 | 234,027 | 1,743 | 260,107 | 495,877 |
| **Lease liabilities** | | | | |
| **Net book value** | | | | |
| As at December 31, 2020 | 346,736 | 1,737 | — | 348,473 |

| The Bank | Property | Equipment | Land use rights | Total |
|---|---|---|---|---|
| **Right-of-use assets** | | | | |
| **Cost** | | | | |
| As at January 1, 2021 | 504,226 | 4,152 | 440,524 | 948,902 |
| Increase | 9,087 | 2,120 | — | 11,207 |
| Decrease | (9,820) | (304) | (526) | (10,650) |
| As at March 31, 2021 | 503,493 | 5,968 | 439,998 | 949,459 |
| **Accumulated depreciation** | | | | |
| As at January 1, 2021 | (270,199) | (2,409) | (178,407) | (451,015) |
| Increase | (20,749) | (779) | (2,034) | (23,562) |
| Decrease | 9,820 | 304 | 326 | 10,450 |
| As at March 31, 2021 | (281,128) | (2,884) | (180,115) | (464,127) |
| **Provision for impairment losses** | | | | |
| As at January 1, 2021 | — | — | (2,010) | (2,010) |
| Increase | — | — | — | — |
| Decrease | — | — | — | — |
| As at March 31, 2021 | — | — | (2,010) | (2,010) |
| **Net book value** | | | | |
| As at March 31, 2021 | 222,365 | 3,084 | 257,873 | 483,322 |
| **Lease liabilities** | | | | |
| **Net book value** | | | | |
| As at March 31, 2021 | 331,463 | 3,083 | — | 334,546 |

## 23 Goodwill

| | As at December 31, 2018 | As at December 31, 2019 | As at December 31, 2020 | As at March 31, 2021 |
|---|---|---|---|---|
| Zhanjiang RCB (Note 38) | — | 181,381 | 181,381 | 181,381 |
| Chaoyang RCB (Note 38) | — | — | 339,140 | 339,140 |
| Impairment allowance(i) | — | — | — | — |
| | — | 181,381 | 520,521 | 520,521 |

(i) Impairment

For the business combination of Zhanjiang RCB and Chaoyang RCB, the recoverable amount of the asset group is based on the six-year budget and ten-year budget approved by the management respectively, which is then estimated based on a fixed growth rate (as described in the table below) and calculated using the cash flow forecast method.

Cash flow projections periods of the Group are determined based on the forecast of the local economic situation, the banking industry, and with reference to the Group's past operating experience. The Group estimated that Zhanjiang City and Shantou City, where the two banks are located, will experience a relatively high growth for a period more than 5 years until the economic growths of these two cities reach a stable level. In addition, the development of the banking industry is highly in line with the local economic development. Accordingly, the Group has incorporated the aforementioned factors into the cash projection by using six and ten years for Zhanjiang RCB and Chaoyang RCB respectively to reflect management's estimation of the future local economic forecasts and the related banking business growth.

| | Zhanjiang RCB | | | Chaoyang RCB | |
|---|---|---|---|---|---|
| | **As at December 31, 2019** | **As at December 31, 2020** | **As at March 31, 2021** | **As at December 31, 2020** | **As at March 31, 2021** |
| Stable period growth rate | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% |
| Pre-tax discount rate | 18.07% | 19.64% | 19.69% | 14.96% | 15.02% |

The growth rate is the weighted average growth rate used by the Group to forecast the cash flow after six years for Zhanjiang RCB and ten years for Chaoyang RCB respectively, which is consistent with the forecast data contained in the industry report. The management uses the cost of equity as the discount rate which can reflect the specific risks of the relevant asset group. The above assumptions are used to analyse the recoverable amounts of the asset group within the business division.

The amounts of recoverable amount exceeding the carrying amount are:

| | **As at December 31, 2018** | **As at December 31, 2019** | **As at December 31, 2020** | **As at March 31, 2021** |
|---|---|---|---|---|
| Zhanjiang RCB | — | 406,536 | 15,341 | 71,034 |
| Chaoyang RCB | — | — | 298,314 | 305,351 |

The recoverable amounts of the asset group would equal its carrying amount if each of the key assumptions were to change as follows, with all other variables held constant:

| | Zhanjiang RCB | | | Chaoyang RCB | |
|---|---|---|---|---|---|
| | **As at December 31, 2019** | **As at December 31, 2020** | **As at March 31, 2021** | **As at December 31, 2020** | **As at March 31, 2021** |
| Stable period growth rate | -3.46% | -0.09% | -0.44% | -2.45% | -2.88% |
| Pre-tax discount rate | 1.64% | 0.08% | 0.36% | 1.67% | 1.72% |

The Directors and management have considered and assessed reasonably possible changes for other key assumptions and have not identified other instances that could cause the carrying amount of the CGUs to exceed its recoverable amount.

## 24 Deferred income tax

Deferred tax assets and liabilities can be offset only when the Group has the right to offset income tax assets and liabilities within the Group and the deferred tax assets and liabilities are associated with the same tax authority.

(1) Main items of deferred tax assets and liabilities and their movements are as follows:

| The Group | Provision for ECL/asset impairment | Changes in fair value of financial investments | Employee benefits payable | Accelerated depreciation of property and equipment | Deductible tax losses | Fair value gain from business combination | Total |
|---|---|---|---|---|---|---|---|
| As at January 1, 2018 | 1,557,252 | 440,942 | 146,627 | — | — | — | 2,144,821 |
| Recognised in profit or loss | 136,954 | (86,891) | 61,684 | (6,993) | — | — | 104,754 |
| Recognised in other comprehensive income | (149,710) | (416,094) | — | — | — | — | (565,804) |
| As at December 31, 2018 | 1,544,496 | (62,043) | 208,311 | (6,993) | — | — | 1,683,771 |
| As at January 1, 2019 | 1,544,496 | (62,043) | 208,311 | (6,993) | — | — | 1,683,771 |
| Recognised in profit or loss | 284,553 | (23,051) | 94,705 | (2,330) | 4,028 | 45 | 357,950 |
| Recognised in other comprehensive income | (424,731) | 205,640 | — | — | — | — | (219,091) |
| Acquisition of a subsidiary | 201,046 | — | 4,045 | — | — | (9,606) | 195,485 |
| As at December 31, 2019 | 1,605,364 | 120,546 | 307,061 | (9,323) | 4,028 | (9,561) | 2,018,115 |
| As at January 1, 2020 | 1,605,364 | 120,546 | 307,061 | (9,323) | 4,028 | (9,561) | 2,018,115 |
| Recognised in profit or loss | (12,094) | 670,879 | (13,103) | (6,410) | 15,019 | 271 | 654,562 |
| Recognised in other comprehensive income | (24,158) | 376,416 | — | — | — | — | 352,258 |
| Acquisition of a subsidiary | 141,588 | 769 | — | — | — | (113,109) | 29,248 |
| As at December 31, 2020 | 1,710,700 | 1,168,610 | 293,958 | (15,733) | 19,047 | (122,399) | 3,054,183 |
| As at January 1, 2021 | 1,710,700 | 1,168,610 | 293,958 | (15,733) | 19,047 | (122,399) | 3,054,183 |
| Recognised in profit or loss | 28,976 | (26,933) | (3,970) | 569 | — | 7,828 | 6,470 |
| Recognised in other comprehensive income | (25,877) | 54,297 | — | — | — | — | 28,420 |
| As at March 31, 2021 | 1,713,799 | 1,195,974 | 289,988 | (15,164) | 19,047 | (114,571) | 3,089,073 |

| The Bank | Provision for ECL/asset impairment | Changes in fair value of financial investments | Employee benefits payable | Accelerated depreciation of property and equipment | Total |
|---|---|---|---|---|---|
| As at January 1, 2018 | 1,452,378 | 439,023 | 146,627 | — | 2,038,028 |
| Recognised in profit or loss | 118,865 | (78,617) | 61,684 | (6,993) | 94,939 |
| Recognised in other comprehensive income | (148,159) | (406,304) | — | — | (554,463) |
| As at December 31, 2018 | 1,423,084 | (45,898) | 208,311 | (6,993) | 1,578,504 |
| As at January 1, 2019 | 1,423,084 | (45,898) | 208,311 | (6,993) | 1,578,504 |
| Recognised in profit or loss | 402,661 | (14,519) | 94,704 | (2,330) | 480,516 |
| Recognised in other comprehensive income | (417,941) | 208,143 | — | — | (209,798) |
| As at December 31, 2019 | 1,407,804 | 147,726 | 303,015 | (9,323) | 1,849,222 |
| As at January 1, 2020 | 1,407,804 | 147,726 | 303,015 | (9,323) | 1,849,222 |
| Recognised in profit or loss | (57,287) | 672,198 | (12,700) | (6,409) | 595,802 |
| Recognised in other comprehensive income | (31,170) | 351,888 | — | — | 320,718 |
| As at December 31, 2020 | 1,319,347 | 1,171,812 | 290,315 | (15,732) | 2,765,742 |
| As at January 1, 2021 | 1,319,347 | 1,171,812 | 290,315 | (15,732) | 2,765,742 |
| Recognised in profit or loss | 45,731 | (23,996) | (9,326) | 569 | 12,978 |
| Recognised in other comprehensive income | (23,275) | 54,692 | — | — | 31,417 |
| As at March 31, 2021 | 1,341,803 | 1,202,508 | 280,989 | (15,163) | 2,810,137 |

(2) The deferred tax assets and liabilities before offsetting and the corresponding temporary differences are as follows:

| **The Group** | **As at December 31,** | | | | | | **As at March 31,** | |
|---|---|---|---|---|---|---|---|---|
| | **2018** | | **2019** | | **2020** | | **2021** | |
| | **Deductible/ (taxable) temporary differences** | **Deferred tax assets/ (liabilities)** | **Deductible/ (taxable) temporary differences** | **Deferred tax assets/ (liabilities)** | **Deductible/ (taxable) temporary differences** | **Deferred tax assets/ (liabilities)** | **Deductible/ (taxable) temporary differences** | **Deferred tax assets/ (liabilities)** |
| **Deferred tax assets:** | | | | | | | | |
| Provision for ECL/asset impairment | 6,197,791 | 1,544,496 | 6,589,674 | 1,605,364 | 6,842,801 | 1,710,700 | 6,870,560 | 1,713,799 |
| Changes in fair value of financial investments | — | — | 482,186 | 120,546 | 4,674,440 | 1,168,610 | 4,783,896 | 1,195,974 |
| Employee benefits payable | 833,242 | 208,311 | 1,228,240 | 307,061 | 1,175,832 | 293,958 | 1,159,952 | 289,988 |
| Deductible tax losses | — | — | 16,111 | 4,028 | 76,188 | 19,047 | 76,188 | 19,047 |
| Sub-total | 7,031,033 | 1,752,807 | 8,316,211 | 2,036,999 | 12,769,261 | 3,192,315 | 12,890,596 | 3,218,808 |
| **Deferred tax liabilities:** | | | | | | | | |
| Changes in fair value of financial investments | (248,171) | (62,043) | — | — | — | — | — | — |
| Fair value gain from business combination | — | — | (38,242) | (9,561) | (489,596) | (122,399) | (458,284) | (114,571) |
| Accelerated depreciation of property and equipment | (27,974) | (6,993) | (37,294) | (9,323) | (62,932) | (15,733) | (60,652) | (15,164) |
| Sub-total | (276,145) | (69,036) | (75,536) | (18,884) | (552,528) | (138,132) | (518,936) | (129,735) |
| **Total** | 6,754,888 | 1,683,771 | 8,240,675 | 2,018,115 | 12,216,733 | 3,054,183 | 12,371,660 | 3,089,073 |

| The Bank | As at December 31, | | | | | | As at March 31, | |
|---|---|---|---|---|---|---|---|---|
| | 2018 | | 2019 | | 2020 | | 2021 | |
| | Deductible/ (taxable) temporary differences | Deferred tax assets/ (liabilities) | Deductible/ (taxable) temporary differences | Deferred tax assets/ (liabilities) | Deductible/ (taxable) temporary differences | Deferred tax assets/ (liabilities) | Deductible/ (taxable) temporary differences | Deferred tax assets/ (liabilities) |
| **Deferred tax assets:** | | | | | | | | |
| Provision for ECL/asset impairment | 5,692,336 | 1,423,084 | 5,631,223 | 1,407,804 | 5,277,388 | 1,319,347 | 5,367,212 | 1,341,803 |
| Changes in fair value of financial investments | — | — | 590,902 | 147,726 | 4,687,247 | 1,171,812 | 4,810,033 | 1,202,508 |
| Employee benefits payable | 833,242 | 208,311 | 1,212,059 | 303,015 | 1,161,261 | 290,315 | 1,123,952 | 280,988 |
| Sub-total | 6,525,578 | 1,631,395 | 7,434,184 | 1,858,545 | 11,125,896 | 2,781,474 | 11,301,197 | 2,825,299 |
| **Deferred tax liabilities:** | | | | | | | | |
| Changes in fair value of financial investments | (183,593) | (45,898) | — | — | — | — | — | — |
| Accelerated depreciation of property and equipment | (27,974) | (6,993) | (37,294) | (9,323) | (62,928) | (15,732) | (60,648) | (15,162) |
| Sub-total | (211,567) | (52,891) | (37,294) | (9,323) | (62,928) | (15,732) | (60,648) | (15,162) |
| **Total** | 6,314,011 | 1,578,504 | 7,396,890 | 1,849,222 | 11,062,968 | 2,765,742 | 11,240,549 | 2,810,137 |

As at December 31, 2019, 2020 and March 31, 2021, the Group did not recognise deferred income tax asset in respect of cumulative tax loss of approximately RMB320 million, RMB276 million and RMB269 million respectively. The outcome of their actual utilisation may be different from management's estimation. These tax losses will expire in 2024 and 2025.

## 25 Other assets

| The Group | As at December 31, | | | As at March 31, |
|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 |
| Interest receivable[(a)] | 26,726 | 36,636 | 92,866 | 103,711 |
| Prepayments for equity investments[(b)] | 1,533,600 | — | — | — |
| Long-term deferred expenses | 169,726 | 170,378 | 151,239 | 151,658 |
| Receivables from disposal of long-term assets | 150,337 | 195,269 | 192,285 | 192,285 |
| Clearing and settlement | 22,723 | 73,563 | 384,179 | 97,323 |
| Prepayments for purchase of software | 114,853 | 161,301 | 70,061 | 68,571 |
| Precious metals | 45,498 | 152,078 | 302,222 | 243,952 |
| Investment properties[(c)] | 17,599 | 15,570 | 13,900 | 13,482 |
| Advances to suppliers | 13,256 | 201,680 | 191,974 | 256,620 |
| Refundable deposits | 8,408 | 12,343 | 13,385 | 24,038 |
| Intangible assets — software[(d)] | 11,975 | 5,837 | 101,401 | 90,927 |
| Foreclosed assets[(e)] | 6,812 | 37,761 | 148,557 | 148,557 |
| Others | 32,117 | 22,269 | 48,505 | 55,628 |
| **Total** | 2,153,630 | 1,084,685 | 1,710,574 | 1,446,752 |

| The Bank | As at December 31, | | | As at March 31, |
|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 |
| Interest receivable[(a)] | 24,637 | 34,834 | 90,024 | 93,914 |
| Prepayments for equity investments[(b)] | 1,533,600 | — | — | — |
| Long-term deferred expenses | 162,648 | 153,681 | 139,022 | 138,131 |
| Receivables from disposal of long-term assets | 150,337 | 195,269 | 192,285 | 192,285 |
| Clearing and settlement | 22,723 | 73,563 | 384,179 | 97,323 |
| Prepayments for purchase of software | 114,853 | 161,301 | 70,061 | 68,571 |
| Precious metals | 45,498 | 152,078 | 302,222 | 243,952 |
| Investment properties[(c)] | 17,599 | 15,570 | 13,900 | 13,482 |
| Advances to suppliers | 8,687 | 187,023 | 143,593 | 208,233 |
| Refundable deposits | 8,408 | 12,343 | 13,385 | 24,038 |
| Intangible assets — software[(d)] | 11,975 | 5,837 | 100,538 | 90,077 |
| Foreclosed assets[(e)] | 3,112 | — | — | — |
| Others | 28,234 | 21,421 | 48,505 | 55,626 |
| **Total** | 2,132,311 | 1,012,920 | 1,497,714 | 1,225,632 |

(a) Interest receivable

| The Group | As at December 31, | | | As at March 31, |
|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 |
| Loans and advances to customers | 51,262 | 55,801 | 77,152 | 85,237 |
| Financial investments | 22,015 | 85,571 | 188,774 | 195,778 |
| Provision for ECL | (46,551) | (104,736) | (173,060) | (177,304) |
| **Total** | 26,726 | 36,636 | 92,866 | 103,711 |

| The Bank | As at December 31, | | | As at March 31, |
|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 |
| Loans and advances to customers | 49,173 | 53,065 | 60,101 | 70,136 |
| Financial investments | 22,015 | 85,505 | 188,774 | 189,127 |
| Provision for ECL | (46,551) | (103,736) | (158,851) | (165,349) |
| **Total** | 24,637 | 34,834 | 90,024 | 93,914 |

(b) Prepayments for equity investments comprise of prepayments for Lechang RCB and Zhanjiang RCB. Further details are set out in Note 20 and Note 38 respectively.

(c) Investment properties

| The Group and the Bank | As at December 31, | | | As at March 31, |
|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 |
| **Cost** | | | | |
| Opening balance | 104,131 | 79,306 | 70,801 | 68,290 |
| Disposal | (24,825) | (8,505) | (2,511) | (1,054) |
| Ending balance | 79,306 | 70,801 | 68,290 | 67,236 |
| **Accumulated amortization** | | | | |
| Opening balance | (81,690) | (61,707) | (55,231) | (54,390) |
| Depreciation | (2,208) | (1,721) | (1,670) | (418) |
| Disposal | 22,191 | 8,197 | 2,511 | 1,054 |
| Ending balance | (61,707) | (55,231) | (54,390) | (53,754) |
| **Net book value** | | | | |
| Ending balance | 17,599 | 15,570 | 13,900 | 13,482 |

(d) Intangible assets—software

| The Group | As at December 31, | | | As at March 31, |
|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 |
| **Cost** | | | | |
| Opening balance | 70,022 | 80,630 | 80,630 | 219,105 |
| Acquisition of a subsidiary | — | — | 124 | — |
| Addition | 12,317 | — | 138,645 | 2,690 |
| Disposal | (1,709) | — | (294) | — |
| Ending balance | 80,630 | 80,630 | 219,105 | 221,795 |
| **Accumulated amortization** | | | | |
| Opening balance | (59,274) | (68,655) | (74,793) | (117,704) |
| Depreciation | (9,949) | (6,138) | (42,911) | (13,164) |
| Disposal | 568 | — | — | — |
| Ending balance | (68,655) | (74,793) | (117,704) | (130,868) |
| **Net book value** | | | | |
| Ending balance | 11,975 | 5,837 | 101,401 | 90,927 |

| The Bank | As at December 31, | | | As at March 31, |
|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 |
| **Cost** | | | | |
| Opening balance | 70,022 | 80,630 | 80,630 | 218,126 |
| Addition | 12,317 | — | 137,790 | 2,687 |
| Disposal | (1,709) | — | (294) | — |
| Ending balance | 80,630 | 80,630 | 218,126 | 220,813 |
| **Accumulated amortization** | | | | |
| Opening balance | (59,274) | (68,655) | (74,793) | (117,588) |
| Depreciation | (9,949) | (6,138) | (42,795) | (13,148) |
| Disposal | 568 | — | — | — |
| Ending balance | (68,655) | (74,793) | (117,588) | (130,736) |
| **Net book value** | | | | |
| Ending balance | 11,975 | 5,837 | 100,538 | 90,077 |

(e) Foreclosed assets

| The Group | As at December 31, | | | As at March 31, |
|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 |
| Property and equipment | 224,549 | 264,951 | 272,481 | 272,481 |
| Land use rights | — | 22,394 | 163,767 | 148,037 |
| Others | — | — | 2,844 | 2,844 |
| | 224,549 | 287,345 | 439,092 | 423,362 |
| Provision for impairment losses | (217,737) | (249,584) | (290,535) | (274,805) |
| **Total** | 6,812 | 37,761 | 148,557 | 148,557 |

| The Bank | As at December 31, | | | As at March 31, |
|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 |
| Property and equipment | 220,849 | 220,849 | 220,849 | 220,849 |
| Provision for impairment losses | (217,737) | (220,849) | (220,849) | (220,849) |
| **Total** | 3,112 | — | — | — |

Foreclosed assets are disposed once they can be sold and net proceeds from sales can be used to offset the balance of debts.

## 26 Borrowings from central banks

| The Group | As at December 31, | | | As at March 31, |
|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 |
| Refinancing loans | 644,000 | 2,599,000 | 6,224,370 | 4,487,538 |
| Rediscount bills | — | — | 271,215 | 145,670 |
| Medium-term Lending Facility | — | — | 24,000,000 | 24,900,000 |
| Interest accrued | 513 | 2,164 | 157,773 | 337,394 |
| **Total** | 644,513 | 2,601,164 | 30,653,358 | 29,870,602 |

| The Bank | As at December 31, | | | As at March 31, |
|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 |
| Refinancing loans | 600,000 | 2,538,000 | 5,810,882 | 4,122,924 |
| Rediscount bills | — | — | 271,215 | 145,670 |
| Medium-term Lending Facility | — | — | 24,000,000 | 24,900,000 |
| Interest accrued | 504 | 2,133 | 157,499 | 326,955 |
| **Total** | 600,504 | 2,540,133 | 30,239,596 | 29,495,549 |

(a) As of December 31, 2018, 2019 and 2020 and March 31, 2021, borrowings from central banks were refinancing loans, rediscount bills and Medium-term Lending Facility. The collateral provided by the Group and the Bank under borrowing agreements are disclosed in Note 39 to this report.

**27 Financial assets sold under repurchase agreements and deposits and placements from banks and other financial institutions**

| The Group | As at December 31, | | | As at March 31, |
|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 |
| Deposits from domestic banks | 21,846,286 | 15,832,080 | 11,339,622 | 16,870,060 |
| Deposits from other domestic financial institutions | 7,303,423 | 3,148,143 | 5,861,294 | 9,171,971 |
| Placements from domestic banks | 1,601,060 | 1,250,000 | 700,000 | 1,700,000 |
| Bonds sold under repurchase agreements[(a)] | 9,808,400 | 15,631,564 | 14,974,791 | 12,317,467 |
| Notes sold under repurchase agreements[(a)] | 12,391,857 | 10,307,419 | 10,491,609 | 5,418,873 |
| Sub-total | 52,951,026 | 46,169,206 | 43,367,316 | 45,478,371 |
| Accrued interest | 253,352 | 203,953 | 114,901 | 112,424 |
| **Total** | 53,204,378 | 46,373,159 | 43,482,217 | 45,590,795 |

| The Bank | As at December 31, | | | As at March 31, |
|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 |
| Deposits from domestic banks | 21,759,896 | 16,465,238 | 11,564,959 | 17,007,013 |
| Deposits from other domestic financial institutions | 7,303,423 | 3,148,143 | 5,861,294 | 9,171,971 |
| Placements from domestic banks | 1,601,060 | 1,250,000 | 700,000 | 1,700,000 |
| Bonds sold under repurchase agreements[(a)] | 9,758,400 | 15,403,750 | 13,166,794 | 10,964,090 |
| Notes sold under repurchase agreements[(a)] | 12,391,857 | 10,307,419 | 10,491,609 | 5,418,873 |
| Sub-total | 52,814,636 | 46,574,550 | 41,784,656 | 44,261,947 |
| Accrued interest | 250,871 | 210,070 | 114,433 | 111,782 |
| **Total** | 53,065,507 | 46,784,620 | 41,899,089 | 44,373,729 |

(a) The securities provided by the Group and the Bank as collateral under repurchase agreements are disclosed in Note 39 to this report.

## 28 Deposits from customers

| The Group | As at December 31, | | | As at March 31, |
|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 |
| Corporate demand deposits | 61,001,253 | 70,437,895 | 86,787,163 | 84,524,580 |
| Corporate time deposits | 46,552,750 | 56,061,572 | 61,514,754 | 70,112,392 |
| Individual demand deposits | 79,817,176 | 91,456,565 | 102,798,196 | 101,253,836 |
| Individual time deposits | 71,629,861 | 88,953,483 | 118,593,507 | 125,826,008 |
| Pledged deposits | 2,308,782 | 2,271,597 | 2,761,014 | 3,013,769 |
| Other deposits | 199,746 | 737,428 | 135,157 | 170,220 |
| Sub-total | 261,509,568 | 309,918,540 | 372,589,791 | 384,900,805 |
| Accrued interest | 3,495,324 | 4,298,465 | 4,959,103 | 4,740,499 |
| **Total** | 265,004,892 | 314,217,005 | 377,548,894 | 389,641,304 |

| The Bank | As at December 31, | | | As at March 31, |
|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 |
| Corporate demand deposits | 60,045,606 | 66,684,840 | 78,761,545 | 76,991,378 |
| Corporate time deposits | 45,975,891 | 53,883,232 | 59,035,574 | 67,480,950 |
| Individual demand deposits | 79,457,871 | 84,872,231 | 91,649,454 | 91,002,518 |
| Individual time deposits | 68,960,375 | 74,012,893 | 80,696,328 | 83,765,686 |
| Pledged deposits | 2,253,462 | 2,194,608 | 2,608,065 | 2,802,865 |
| Other deposits | 199,364 | 723,723 | 125,721 | 161,995 |
| Sub-total | 256,892,569 | 282,371,527 | 312,876,687 | 322,205,392 |
| Accrued interest | 3,449,251 | 3,787,979 | 3,490,465 | 3,315,505 |
| **Total** | 260,341,820 | 286,159,506 | 316,367,152 | 325,520,897 |

## 29 Debt securities issued

| The Group | As at December 31, | | | As at March 31, |
|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 |
| Interbank certificates of deposit[(a)] | 51,571,438 | 52,101,593 | 39,293,946 | 41,171,495 |
| Tier 2 capital bonds[(b)] | 3,994,054 | 3,994,802 | 3,995,533 | 3,995,657 |
| Green financial bonds[(c)] | — | 1,998,565 | 2,842,847 | 2,841,399 |
| Small and micro enterprises bonds[(d)] | — | — | 1,948,809 | 4,618,737 |
| Sannong financial bonds[(e)] | — | — | 1,918,748 | 1,918,527 |
| Sub-total | 55,565,492 | 58,094,960 | 49,999,883 | 54,545,815 |
| Accrued interest | 111,233 | 176,710 | 249,354 | 235,086 |
| **Total** | 55,676,725 | 58,271,670 | 50,249,237 | 54,780,901 |

| The Bank | As at December 31, | | | As at March 31, |
|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 |
| Interbank certificates of deposit[(a)] | 51,523,326 | 52,251,593 | 39,393,946 | 41,442,876 |
| Tier 2 capital bonds[(b)] | 3,994,054 | 3,994,802 | 3,995,533 | 3,995,657 |
| Green financial bonds[(c)] | — | 1,998,565 | 2,998,847 | 2,997,399 |
| Small and micro enterprises bonds[(d)] | — | — | 1,998,809 | 4,998,737 |
| Sannong financial bonds[(e)] | — | — | 1,998,748 | 1,998,527 |
| Sub-total | 55,517,380 | 58,244,960 | 50,385,883 | 55,433,196 |
| Accrued interest | 111,233 | 176,710 | 249,354 | 235,086 |
| **Total** | 55,628,613 | 58,421,670 | 50,635,237 | 55,668,282 |

(a) Interbank certificates of deposit are as follows:

| | As at December 31, | | | As at March 31, |
|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 |
| Reference rates of return | 2.70%-5.12% | 2.77%-4.13% | 1.80%-3.35% | 1.86%-3.35% |
| Original maturity | 1 to 12 months | 6 to 12 months | 3 to 12 months | 3 to 12 months |

As at December 31, 2018, 2019 and 2020 and March 31, 2021, the Group did not have any overdue principal and interest on interbank certificates of deposit or other defaults.

(b) The Bank issued a 10-year fixed-rate Tier 2 capital bonds with a total amount of RMB4,000 million in June 2017 at a coupon rate of 5.00% per annum, and the bond pays interest annually. With the approval of the regulators, when in compliance with regulatory capital requirements or an equivalent or higher quality capital instrument is available to replace the bond, the Bank has the option to redeem part or all of the bond at par value on June 12, 2022. If the Bank does not exercise its right of redemption on June 12, 2022, the Bank will continue to pay interest at the coupon rate at 5.00% per annum. The bond has the write-down feature of Tier 2 capital instruments, which allows the Bank to write down the entire principal of the bond and not to pay any accumulated unpaid interests when a regulatory triggering event as stipulated in the offering documents occurs. Based on relevant provisions of CBIRC, the Tier 2 capital bonds meets the criteria of a qualified Tier 2 capital instrument.

(c) The Bank issued 3-year green financial bonds with a total amount of RMB2,000 million and a total amount of RMB1,000 million in January 2019 and December 2020 at a coupon rate of 3.50% and 3.75% per annum, and the bonds pay interest annually.

(d) The Bank issued a 3-year fixed rate bond for small and micro enterprises amounting to RMB2,000 million in March 2020 at a coupon rate of 2.94% per annum, and the bond pays interest annually. The Bank issued the first phase and second phase of 3-year fixed rate special financial bonds for small and micro enterprise amounting to RMB2,000 million and RMB1,000 million in March 2021, with at coupon rate of 3.58% and 3.52% per annum, respectively, and the bonds pay interest annually.

(e) The Bank issued a 3-year fixed rate bond for Sannong amounting to RMB2,000 million in September 2020 at a coupon rate of 3.62% per annum, and the bond pays interest annually.

## 30 Taxes payable

| The Group | As at December 31, | | | As at March 31, |
|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 |
| Income tax | 262,996 | 509,366 | 418,355 | 638,722 |
| Land appreciation tax | 83,617 | 148,827 | 119,238 | 119,092 |
| VAT and others | 189,800 | 255,628 | 285,142 | 303,010 |
| **Total** | 536,413 | 913,821 | 822,735 | 1,060,824 |

| The Bank | As at December 31, | | | As at March 31, |
|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 |
| Income tax | 261,760 | 451,620 | 418,345 | 633,678 |
| Land appreciation tax | 83,617 | 148,827 | 119,238 | 119,092 |
| VAT and others | 187,894 | 248,835 | 282,996 | 270,869 |
| **Total** | 533,271 | 849,282 | 820,579 | 1,023,639 |

## 31 Other liabilities

| The Group | As at December 31, | | | As at March 31, |
|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 |
| Outstanding payments of rights to earnings on credit assets[(a)] | — | — | 2,468,502 | — |
| Employee benefits payable[(b)] | 1,386,529 | 1,848,456 | 2,044,732 | 1,767,115 |
| Deferred fee and commission income from credit cards | 277,705 | 181,485 | 131,681 | 111,884 |
| Advances from disposal of long-term assets | 71,347 | 104,533 | 94,169 | 88,711 |
| Accrued expenses | 110,827 | 196,170 | 237,488 | 202,311 |
| Outstanding payments of foreclosed assets | 86,302 | 86,302 | 89,293 | 89,504 |
| Purchases payable | 81,281 | 137,219 | 215,688 | 114,026 |
| Clearing and settlement | 376,396 | 123,512 | 917,632 | 89,477 |
| Provisions[(c)] | 52,581 | 59,250 | 64,713 | 103,294 |
| Others | 35,729 | 34,494 | 49,102 | 67,379 |
| **Total** | 2,478,697 | 2,771,421 | 6,313,000 | 2,633,701 |

| The Bank | As at December 31, | | | As at March 31, |
|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 |
| Outstanding payments of rights to earnings on credit assets[(a)] | — | — | 2,468,502 | — |
| Employee benefits payable[(b)] | 1,376,368 | 1,770,455 | 1,872,755 | 1,645,358 |
| Deferred fee and commission income from credit cards | 277,705 | 181,485 | 131,681 | 111,884 |
| Advances from disposal of long-term assets | 71,347 | 104,533 | 94,169 | 88,711 |
| Accrued expenses | 107,039 | 194,597 | 225,601 | 191,418 |
| Outstanding payments of foreclosed assets | 86,302 | 86,302 | 89,292 | 89,504 |
| Purchases payable | 81,281 | 137,219 | 215,688 | 114,026 |
| Clearing and settlement | 376,396 | 56,409 | 818,208 | 28,780 |
| Provisions[(c)] | 52,581 | 59,250 | 64,713 | 102,727 |
| Others | 34,625 | 23,098 | 40,649 | 54,877 |
| **Total** | 2,463,644 | 2,613,348 | 6,021,258 | 2,427,285 |

(a) The Bank purchased certain rights to earnings on credit assets which underlying assets were originally purchased from Shantou City Chaoyang Rural Credit Cooperatives Union with a consideration of RMB3,069 million and recorded asset losses of RMB2,298 million (Note 12) according to the fair values of the underlying assets. The assets purchased after considering the aforementioned asset losses have been recorded as financial assets at fair value through profit or loss on the consolidated statements of financial position. The Bank made the first payment of RMB600 million on December 29, 2020 and the remaining payment of RMB2,469 million was made in January 2021.

(b) Employee benefits payable

| The Group | As at December 31, | | | As at March 31, |
|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 |
| Wages and salaries, bonuses, allowances and subsidies | 1,158,061 | 1,488,742 | 1,555,549 | 1,289,794 |
| Labor union funds and employee education funds | 98,719 | 120,020 | 162,412 | 162,887 |
| Social security and benefits | 89,261 | 185,828 | 181,804 | 193,757 |
| Defined contribution plans payable | | | | |
| — Enterprise annuity scheme | 40,488 | 53,866 | 144,967 | 120,677 |
| **Total** | 1,386,529 | 1,848,456 | 2,044,732 | 1,767,115 |

| The Bank | As at December 31, | | | As at March 31, |
|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 |
| Wages and salaries, bonuses, allowances and subsidies | 1,147,900 | 1,452,187 | 1,419,063 | 1,202,219 |
| Labor union funds and employee education funds | 98,719 | 119,019 | 159,055 | 160,093 |
| Social security and benefits | 89,261 | 145,412 | 154,684 | 168,252 |
| Defined contribution plans payable | | | | |
| — Enterprise annuity scheme | 40,488 | 53,837 | 139,953 | 114,794 |
| **Total** | 1,376,368 | 1,770,455 | 1,872,755 | 1,645,358 |

(c) Provisions

| The Group | As at December 31, | | | As at March 31, |
|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 |
| Loan commitments and financial guarantee contracts(i) | 52,581 | 59,250 | 64,713 | 103,294 |

| The Bank | As at December 31, | | | As at March 31, |
|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 |
| Loan commitments and financial guarantee contracts(i) | 52,581 | 59,250 | 64,713 | 102,727 |

(i) Analysis of movements in provisions of loan commitments and financial guarantee contracts measured using the ECL model.

| The Group and the Bank | Stage 1 | Stage 2 | Stage 3 | |
|---|---|---|---|---|
| | 12-month ECL | Lifetime ECL | Lifetime ECL | Total |
| As at January 1, 2018 | 44,753 | 5,012 | 3,847 | 53,612 |
| Originated or purchased | 31,958 | — | — | 31,958 |
| Repayment and transfer out | (24,494) | (3,280) | (3,736) | (31,510) |
| Remeasurement[(i)] | (2,334) | 806 | 49 | (1,479) |
| Net transfers in : | | | | |
| — Stage 1 | 1,682 | — | — | 1,682 |
| — Stage 2 | — | (1,598) | — | (1,598) |
| — Stage 3 | — | — | (84) | (84) |
| As at December 31, 2018 | 51,565 | 940 | 76 | 52,581 |

| The Group and the Bank | Stage 1 | Stage 2 | Stage 3 | |
|---|---|---|---|---|
| | 12-month ECL | Lifetime ECL | Lifetime ECL | Total |
| As at January 1, 2019 | 51,565 | 940 | 76 | 52,581 |
| Originated or purchased | 31,427 | — | — | 31,427 |
| Repayment and transfer out | (32,468) | (158) | (1) | (32,627) |
| Remeasurement[(i)] | 3,230 | 915 | 3,724 | 7,869 |
| Net transfers in : | | | | |
| — Stage 1 | (462) | — | — | (462) |
| — Stage 2 | — | (726) | — | (726) |
| — Stage 3 | — | — | 1,188 | 1,188 |
| As at December 31, 2019 | 53,292 | 971 | 4,987 | 59,250 |

| The Group and the Bank | Stage 1 | Stage 2 | Stage 3 | |
|---|---|---|---|---|
| | 12-month ECL | Lifetime ECL | Lifetime ECL | Total |
| As at January 1, 2020 | 53,292 | 971 | 4,987 | 59,250 |
| Originated or purchased | 36,641 | — | — | 36,641 |
| Repayment and transfer out | (32,347) | 739 | 356 | (31,252) |
| Remeasurement[(i)] | (3,402) | 312 | 3,164 | 74 |
| Net transfers in : | | | | |
| —Stage 1 | 1,444 | — | — | 1,444 |
| — Stage 2 | — | (1,513) | — | (1,513) |
| — Stage 3 | — | — | 69 | 69 |
| As at December 31, 2020 | 55,628 | 509 | 8,576 | 64,713 |

| The Group | Stage 1 | Stage 2 | Stage 3 | |
|---|---|---|---|---|
| | 12-month ECL | Lifetime ECL | Lifetime ECL | Total |
| As at January 1, 2021 | 55,628 | 509 | 8,576 | 64,713 |
| Originated or purchased | 25,693 | — | — | 25,693 |
| Repayment and transfer out | (41,145) | (347) | (5,520) | (47,012) |
| Remeasurement[(i)] | 16,440 | 37,380 | 6,080 | 59,900 |
| Net transfers in : | | | | |
| — Stage 1 | (2,668) | — | — | (2,668) |
| — Stage 2 | — | 2,777 | — | 2,777 |
| — Stage 3 | — | — | (109) | (109) |
| As at March 31, 2021 | 53,948 | 40,319 | 9,027 | 103,294 |

| The Bank | Stage 1 | Stage 2 | Stage 3 | |
|---|---|---|---|---|
| | 12-month ECL | Lifetime ECL | Lifetime ECL | Total |
| As at January 1, 2021 | 55,628 | 509 | 8,576 | 64,713 |
| Originated or purchased | 25,693 | — | — | 25,693 |
| Repayment and transfer out | (41,145) | (347) | (5,520) | (47,012) |
| Remeasurement[(i)] | 16,440 | 37,380 | 5,513 | 59,333 |
| Net transfers in : | | | | |
| — Stage 1 | (2,668) | — | — | (2,668) |
| — Stage 2 | — | 2,777 | — | 2,777 |
| — Stage 3 | — | — | (109) | (109) |
| As at March 31, 2021 | 53,948 | 40,319 | 8,460 | 102,727 |

(i) Remeasurement are caused by parameter changes or transfers between stages.

## 32 Share capital

| | Number of shares (in thousands) | Nominal amount |
|---|---|---|
| As at December 31, 2018, 2019 and 2020 and March 31, 2021 | 5,740,455 | 5,740,455 |

The share capital of the Bank consists of authorized share capital issued and fully paid, with par value of RMB1 per share.

## 33 Revaluation reserve

| The Group | Amount before tax | Effect of income tax | Net amount after tax |
|---|---|---|---|
| January 1, 2018 | (1,494,951) | 373,738 | (1,121,213) |
| Changes in fair value of financial assets at fair value through other comprehensive income | | | |
| — Amounts recognized in other comprehensive income | 1,292,430 | (323,108) | 969,322 |
| — Amounts transferred to profit or loss | 371,740 | (92,935) | 278,805 |

| The Group | Amount before tax | Effect of income tax | Net amount after tax |
|---|---|---|---|
| Changes in credit impairment provision for financial assets at fair value through other comprehensive income | | | |
| — Amounts recognized in other comprehensive income | 598,840 | (149,710) | 449,130 |
| Changes in fair value of equity instruments at fair value through other comprehensive income | | | |
| — Amounts recognized in other comprehensive income | (3,822) | 956 | (2,866) |
| December 31, 2018 | 764,237 | (191,059) | 573,178 |
| January 1, 2019 | 764,237 | (191,059) | 573,178 |
| Changes in fair value of debt instrument investments at fair value through other comprehensive income | | | |
| — Amounts recognized in other comprehensive income | (789,788) | 197,447 | (592,341) |
| — Amounts transferred to profit or loss | (44,588) | 11,147 | (33,441) |
| Changes in credit impairment provision for debt instrument investments at fair value through other comprehensive income | | | |
| — Amounts recognized in other comprehensive income | 1,698,876 | (424,731) | 1,274,145 |
| Changes in fair value of equity instruments at fair value through other comprehensive income | | | |
| — Amounts recognized in other comprehensive income | 10,577 | (2,644) | 7,933 |
| December 31, 2019 | 1,639,314 | (409,840) | 1,229,474 |
| January 1, 2020 | 1,639,314 | (409,840) | 1,229,474 |
| Changes in fair value of debt instrument investments at fair value through other comprehensive income | | | |
| — Amounts recognized in other comprehensive income | (1,055,214) | 263,803 | (791,411) |
| — Amounts transferred to profit or loss | (456,012) | 114,003 | (342,009) |
| Changes in credit impairment provision for debt instrument investments at fair value through other comprehensive income | | | |
| — Amounts recognized in other comprehensive income | 480,474 | (120,119) | 360,355 |
| — Amounts transferred to profit or loss | (349,380) | 87,345 | (262,035) |
| Changes in fair value of equity instruments at fair value through other comprehensive income | | | |
| — Amounts recognized in other comprehensive income | 2,556 | (639) | 1,917 |
| December 31, 2020 | 261,738 | (65,447) | 196,291 |
| January 1, 2021 | 261,738 | (65,447) | 196,291 |
| Changes in fair value of debt instrument investments at fair value through other comprehensive income | | | |
| — Amounts recognized in other comprehensive income | (248,692) | 62,173 | (186,519) |
| — Amounts transferred to profit or loss | 17,309 | (4,327) | 12,982 |

| The Group | Amount before tax | Effect of income tax | Net amount after tax |
|---|---|---|---|
| Changes in credit impairment provision for debt instrument investments at fair value through other comprehensive income | | | |
| — Amounts recognized in other comprehensive income | 191,446 | (47,862) | 143,584 |
| — Amounts transferred to profit or loss | (91,469) | 22,867 | (68,602) |
| Changes in fair value of equity instruments at fair value through other comprehensive income | | | |
| — Amounts recognized in other comprehensive income | 3,073 | (768) | 2,305 |
| March 31, 2021 | 133,405 | (33,364) | 100,041 |

| The Bank | Amount before tax | Effect of income tax | Net amount after tax |
|---|---|---|---|
| January 1, 2018 | (1,490,880) | 372,719 | (1,118,161) |
| Changes in fair value of debt instrument investments at fair value through other comprehensive income | | | |
| — Amounts recognized in other comprehensive income | 1,257,926 | (314,478) | 943,448 |
| — Amounts transferred to profit or loss | 371,126 | (92,782) | 278,344 |
| Changes in credit impairment provision for debt instrument investments at fair value through other comprehensive income | | | |
| — Amounts recognized in other comprehensive income | 592,636 | (148,159) | 444,477 |
| Changes in fair value of equity instruments at fair value through other comprehensive income | | | |
| — Amounts recognized in other comprehensive income | (3,822) | 956 | (2,866) |
| December 31, 2018 | 726,986 | (181,744) | 545,242 |
| January 1, 2019 | 726,986 | (181,744) | 545,242 |
| Changes in fair value of debt instrument investments at fair value through other comprehensive income | | | |
| — Amounts recognized in other comprehensive income | (806,033) | 201,508 | (604,525) |
| — Amounts transferred to profit or loss | (37,116) | 9,279 | (27,837) |
| Changes in credit impairment provision for debt instrument investments at fair value through other comprehensive income | | | |
| — Amounts recognized in other comprehensive income | 1,671,767 | (417,941) | 1,253,826 |
| Changes in fair value of equity instruments at fair value through other comprehensive income | | | |
| — Amounts recognized in other comprehensive income | 10,577 | (2,644) | 7,933 |
| December 31, 2019 | 1,566,181 | (391,542) | 1,174,639 |

| The Bank | Amount before tax | Effect of income tax | Net amount after tax |
|---|---|---|---|
| January 1, 2020 | 1,566,181 | (391,542) | 1,174,639 |
| Changes in fair value of debt instrument investments at fair value through other comprehensive income | | | |
| — Amounts recognized in other comprehensive income | (971,496) | 242,874 | (728,622) |
| — Amounts transferred to profit or loss | (438,612) | 109,653 | (328,959) |
| Changes in credit impairment provision for debt instrument investments at fair value through other comprehensive income | | | |
| — Amounts recognized in other comprehensive income | 441,356 | (110,339) | 331,017 |
| — Amounts transferred to profit or loss | (316,677) | 79,169 | (237,508) |
| Changes in fair value of equity instruments at fair value through other comprehensive income | | | |
| — Amounts recognized in other comprehensive income | 2,557 | (639) | 1,918 |
| December 31, 2020 | 283,309 | (70,824) | 212,485 |
| January 1, 2021 | 283,309 | (70,824) | 212,485 |
| Changes in fair value of debt instrument investments at fair value through other comprehensive income | | | |
| — Amounts recognized in other comprehensive income | (241,500) | 60,375 | (181,125) |
| — Amounts transferred to profit or loss | 22,144 | (5,536) | 16,608 |
| Changes in credit impairment provision for debt instrument investments at fair value through other comprehensive income | | | |
| — Amounts recognized in other comprehensive income | 183,812 | (45,953) | 137,859 |
| — Amounts transferred to profit or loss | (90,713) | 22,678 | (68,035) |
| Changes in fair value of equity instruments at fair value through other comprehensive income | | | |
| — Amounts recognized in other comprehensive income | 588 | (147) | 441 |
| March 31, 2021 | 157,640 | (39,407) | 118,233 |

## 34 Surplus reserves and general reserve

| The Group | Surplus reserves [a] | General reserve [b] |
|---|---|---|
| January 1, 2018 | 2,747,740 | 4,787,719 |
| Appropriation to surplus reserves | 3,456,256 | — |
| Appropriation to general reserve | — | 230,052 |
| December 31, 2018 | 6,203,996 | 5,017,771 |
| January 1, 2019 | 6,203,996 | 5,017,771 |
| Appropriation to surplus reserves | 501,037 | — |
| Appropriation to general reserve | — | 266,354 |
| December 31, 2019 | 6,705,033 | 5,284,125 |
| January 1, 2020 | 6,705,033 | 5,284,125 |
| Appropriation to surplus reserves | 472,561 | — |
| Appropriation to general reserve | — | 483,610 |
| December 31, 2020 | 7,177,594 | 5,767,735 |
| January 1, 2021 | 7,177,594 | 5,767,735 |
| Appropriation to surplus reserves | — | — |
| Appropriation to general reserve | — | — |
| March 31, 2021 | 7,177,594 | 5,767,735 |

| The Bank | Surplus reserves (a) | General reserve (b) |
|---|---|---|
| January 1, 2018 | 2,747,740 | 4,767,435 |
| Appropriation to surplus reserves | 3,456,256 | — |
| Appropriation to general reserve | — | 228,128 |
| December 31, 2018 | 6,203,996 | 4,995,563 |
| January 1, 2019 | 6,203,996 | 4,995,563 |
| Appropriation to surplus reserves | 501,037 | — |
| Appropriation to general reserve | — | 250,519 |
| December 31, 2019 | 6,705,033 | 5,246,082 |
| January 1, 2020 | 6,705,033 | 5,246,082 |
| Appropriation to surplus reserves | 472,561 | — |
| Appropriation to general reserve | — | 472,561 |
| December 31, 2020 | 7,177,594 | 5,718,643 |
| January 1, 2021 | 7,177,594 | 5,718,643 |
| Appropriation to surplus reserves | — | — |
| Appropriation to general reserve | — | — |
| March 31, 2021 | 7,177,594 | 5,718,643 |

(a) Surplus reserves

The surplus reserve at the end of each of the Track Record Period represented statutory surplus reserve and discretionary surplus reserve.

Pursuant to the PRC Company Law and the Articles of Association of the Bank, the Bank is required to appropriate 10% of its net profit as on an annual basis determined under the PRC Generally Accepted Accounting Principles ("GAAP") until the balance reaches 50% of its registered capital as statutory surplus reserve. The Bank may also appropriate to the discretionary surplus reserve in accordance with the resolution of the shareholders.

The Bank appropriated RMB456 million, RMB501 million, RMB473 million and nil to the statutory surplus reserve and RMB3,000 million, nil, nil and nil to discretionary surplus reserve for the years ended December 31, 2018, 2019 and 2020 and the three months ended March 31, 2021, respectively.

(b) General reserve

Pursuant to Caijin [2012] No. 20 "Requirements on Impairment Allowance for Financial Institutions" (the "Requirement") issued by the MOF, effective July 1, 2012, in addition to impairment allowances, the Bank and its subsidiaries are required to establish and maintain a general reserve within equity through the appropriation of profit to address unidentified potential impairment risks. The general reserve should not be less than 1.5% of the aggregate amount of risk assets as defined by the Requirement.

## 35 Cash and cash equivalents

For the purpose of the cash flow statements, cash and cash equivalents comprise the following amounts which have original maturities of less than three months and are used to meet short-term cash commitments:

| The Group | As at December 31, | | | As at March 31, |
|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 |
| Cash | 1,610,576 | 2,456,109 | 2,432,295 | 2,629,927 |
| Surplus reserve deposits with central banks | 7,613,914 | 8,596,266 | 8,913,037 | 5,910,722 |
| Deposits with banks and other financial institutions | 3,395,129 | 6,257,305 | 11,479,923 | 9,692,860 |
| Placements with banks and other financial institutions | 1,269,692 | 627,858 | 891,494 | 990,000 |
| Financial assets held under resale agreements | 9,544,923 | 5,317,700 | 5,542,874 | 7,672,479 |
| **Total** | 23,434,234 | 23,255,238 | 29,259,623 | 26,895,988 |

## 36 Dividends

| | Years ended December 31, | | | Three months ended March 31, |
|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 |
| Dividends declared within the year/period | 1,308,825 | 1,366,228 | 1,492,520 | — |
| Dividends per share (RMB per share) | 0.228 | 0.238 | 0.260 | 0.000 |

Under the PRC Company Law and the Bank's Articles of Association, the net profit after tax as reported in the PRC statutory financial statements can only be distributed as dividends after:

- Making up prior year's cumulative losses, if any;
- Allocations to the non-distributable statutory reserve of 10% of the net profit of the Bank.

A dividend of RMB0.228 per share (tax inclusive) in respect of the year ended December 31, 2017, with a total of RMB1,309 million was approved in the annual general meeting on March 28, 2018.

A dividend of RMB0.238 per share (tax inclusive) in respect of the year ended December 31, 2018, with a total of RMB1,366 million was approved in the annual general meeting on April 25, 2019.

A dividend of RMB0.260 per share (tax inclusive) in respect of the year ended December 31, 2019, with a total of RMB1,493 million was approved in the annual general meeting on April 28, 2020.

A dividend of RMB0.260 per share (tax inclusive) in respect of the year ended December 31, 2020, with a total of RMB1,493 million was approved in the annual general meeting on April 23, 2021.

In additional, pursuant to the resolutions of the shareholders general meeting on April 25, 2019, the Bank declared a special cash dividend of RMB1.5 per ten shares to its shareholders before the completion of the global offering and the listing. Following that, pursuant to the resolutions of the Board of Directors on September 6, 2021, the Bank confirmed to declare the special cash dividend to its shareholders whose name appear on the Bank's register of members on August 31, 2021. The total amount of such dividend is approximately RMB861.1 million, which is expected to be paid after the entering into of the price determination agreement to be entered into between the joint global coordinators and the Bank on a pricing determination date in respect of the global offering (the "Price Determination Agreement") and before the listing date, and will be settled through the Bank's retained earnings. As the Bank can control whether to distribute the special dividend or not through controlling the progress of the listing, and the successful listing was uncertain for the Track Record Period, such special dividend has not been recognized for the Track Record Period.

**37 Structured entities**

(a) WMPs issued by the Group

*Non-principal-guaranteed WMPs*

Non-principal-guaranteed WMPs are not subject to any guarantee by the Group of the principal invested or interest to be paid.

As at December 31, 2018, 2019 and 2020 and March 31, 2021, the unconsolidated non-principal-guaranteed WMPs issued and managed by the Group amounted to RMB32,700 million, RMB33,987 million , RMB36,670 million and RMB36,651 million, respectively. The WMPs invest in a range of primarily fixed rate assets, most typically money market instruments, debt securities and loan assets. As the manager of these WMPs, the Group invests, on behalf of the investors in these WMPs, the funds raised in the assets as described in the investment plan related to each WMP and receives fee and commission income. Certain non-principal-guaranteed WMPs issued, managed and actually controlled by the Bank are consolidated in the historical financial information of the Group. As at December 31, 2018, 2019 and 2020 and March 31, 2021, the consolidated non-principal-guaranteed WMPs amounted to RMB1,735 million, RMB3,060 million, RMB4,488 million and RMB5,687 million, respectively.

*Principal-guaranteed WMPs*

Principal guaranteed WMPs sponsored and managed by the Group represent products to which the Group has guaranteed the investor's principal investment, regardless of their actual performance. In accordance with the Group's accounting policies, the Group classifies the WMPs by the nature of the underlying assets or liabilities and records them in the corresponding financial statement line items. As at December 31, 2018, 2019 and 2020 and March 31, 2021, the principal-guaranteed WMPs issued by the Group amounted to RMB15,645 million, RMB8,638 million, RMB2,436 million and RMB1,640 million, respectively.

For the years ended December 31, 2018, 2019 and 2020 and the three months ended March 31, 2020 and 2021, the Group's interest in WMPs included fee and commission income of RMB312 million, RMB459 million, RMB329 million, RMB55 million and RMB66 million, respectively. The Group had mainly debt securities trading and money market transactions with the above WMPs. The gains or losses on these transactions had no significant impact on the Group.

(b) Structured entities set up in third-party organizations

The Group invests in other unconsolidated structured entities which are sponsored and managed by other entities for investment returns, and records trading gains or losses and interest income therefrom. As at

December 31, 2018, 2019 and 2020 and March 31, 2021, the carrying amounts of the Group's interests in structured entities set up in third-party organizations by directly holding the investment were as follows:

| | As at December 31, | | | As at March 31, |
|---|---|---|---|---|
| | **2018** | **2019** | **2020** | **2021** |
| **Financial assets at fair value through profit or loss** | | | | |
| — Fund investments (Note 18.1) | 6,423,499 | 10,215,267 | 20,496,877 | 22,358,502 |
| — Rights to earnings on credit assets (Note 18.1) | 4,245,486 | 3,130,299 | 3,434,843 | 3,435,058 |
| — Others (Note 18.1) | 30,029 | 29,337 | 27,304 | 27,932 |
| **Financial investments at amortized cost** | | | | |
| — Rights to earnings on credit assets (Note 18.2) | 6,384,931 | 3,969,649 | 902,634 | 654,519 |
| **Financial investments at fair value through other comprehensive income** | | | | |
| — Rights to earnings on credit assets (Note 18.3) | 936,363 | 594,251 | 446,175 | 272,591 |
| — Direct financing instruments for WMPs (Note 18.3) | 625,165 | 603,853 | 222,000 | 223,443 |
| **Total** | 18,645,473 | 18,542,656 | 25,529,833 | 26,972,045 |

As at December 31, 2018, 2019 and 2020 and March 31, 2021, the maximum exposures of the above structured entities were their carrying amounts.

## 38 Business combination

(a) Summary of acquisition

*Zhanjiang RCB*

Zhanjiang RCB was formed as a result of a combination of Zhanjiang City Donghai Island Economic Development Test Zone Rural Credit Cooperatives Union ("Donghai Union"), Zhanjiang City Chikan District Rural Credit Cooperatives Union ("Chikan Union"), Zhanjiang City Potou District Rural Credit Cooperatives Union ("Potou Union"), Zhanjiang City Mazhang District Rural Credit Cooperatives Union ("Mazhang Union). The Bank and other new investors invested by cash injection, while Donghai Union, Chikan Union, Potou Union and Mazhang Union invested by all the shares of each unions. The business combination was completed on October 26, 2019. Upon the acquisition, the Bank holds 49.41% shares and the remaining shareholdings are widely dispersed. Therefore, the Bank controls Zhanjiang RCB.

The assets and liabilities recognized as a result of the acquisition are as follows:

| | As at October 26, 2019 |
|---|---|
| | Fair value |
| **ASSETS** | |
| Cash and balances with central banks | 4,934,123 |
| Financial assets held under resale agreements and deposits and placements with banks and other financial institutions | 5,982,528 |
| Loans and advances to customers | 11,201,079 |
| Financial investments | |
| — At amortized cost | 2,419,204 |
| — At fair value through other comprehensive income | 8,000 |
| Property and equipment | 166,892 |
| Right-of-use assets | 37,166 |
| Deferred tax assets | 195,485 |
| Other assets | 73,745 |
| Total assets | 25,018,222 |
| **LIABILITIES** | |
| Financial assets sold under repurchase agreements and deposits and placements from banks and other financial institutions | 34,062 |
| Deposits from customers | 21,877,264 |
| Taxes payable | 77,001 |
| Lease liabilities | 18,627 |
| Other liabilities | 83,968 |
| Total liabilities | 22,090,922 |
| **Net identifiable assets** | 2,927,300 |
| Less: Non-controlling interests acquired(i) | (1,480,921) |
| Add: goodwill | 181,381 |
| Net assets acquired | 1,627,760 |

*Chaoyang RCB*

Chaoyang RCB obtained its finance permit from the CBIRC and its business license from the Administration for Market Regulation of Shantou Municipality on December 27, 2020. The business combination was completed on December 27, 2020. Upon the acquisition, the Bank holds 67.03% shares and controls Chaoyang RCB.

The assets and liabilities recognized as a result of the acquisition are as follows:

| | As at December 27, 2020 |
|---|---|
| | Fair value |
| **ASSETS** | |
| Cash and balances with central banks | 3,481,718 |
| Financial assets held under resale agreements and deposits and placements with banks and other financial institutions | 8,223,258 |
| Loans and advances to customers | 3,615,328 |
| Financial investments | |
| — At amortized cost | 16,487,788 |
| — At fair value through other comprehensive income | 196,850 |
| Property and equipment | 493,612 |
| Right-of-use assets | 50,338 |
| Deferred tax assets | 29,248 |
| Other assets | 170,759 |
| Total assets | 32,748,899 |
| **LIABILITIES** | |
| Borrowings from central banks | 11,703 |
| Financial assets sold under repurchase agreements and deposits and placements from banks and other financial institutions | 707,815 |
| Deposits from customers | 29,657,899 |
| Lease liabilities | 50,338 |
| Other liabilities | 115,285 |
| Total liabilities | 30,543,040 |
| **Net identifiable assets** | 2,205,859 |
| Less: Non-controlling interests acquired(i) | (727,272) |
| Add: goodwill | 339,140 |
| Net assets acquired | 1,817,727 |

(i) Accounting policy choice for non-controlling interests

For the non-controlling interests in Zhanjiang RCB and Chaoyang RCB, the Group elected to recognize the non-controlling interests at their proportionate share of the acquired net identifiable assets.

(ii) Revenue and profit contribution

For the years ended December 31, 2019 and 2020 and three months ended March 31, 2020 and 2021, Zhanjiang RCB's contribution to the consolidated operating income and net profit of the Group were RMB115 million , RMB6 million and RMB701 million, RMB247 million and RMB174 million, RMB22 million and RMB174 million, RMB42 million, respectively.

For the year ended December 31, 2020 and the three months ended March 31, 2021, Chaoyang RCB's contribution to the consolidated operating income of the Group were RMB2 million and RMB72 million and net losses of RMB17 million and net income of RMB57 million were consolidated to the Group.

(b) Net cash flow for acquisition

Net cash flow for acquisition of the Zhanjiang RCB is analyzed below:

| | **As at October 26, 2019** |
|---|---|
| Purchase consideration: | |
| Cash paid in 2019 | 170,000 |
| Cash paid in 2018 as prepayments | 1,178,000 |
| Cash paid in 2017 as prepayments | 279,760 |
| Total cash consideration | 1,627,760 |
| Less: cash paid to acquire Zhanjiang RCB in 2019 | (170,000) |
| Add: cash and cash equivalents held by Zhanjiang RCB | 4,730,267 |
| Net cash inflow from acquisition of Zhanjiang RCB | 4,560,267 |

Net cash flow for acquisition of the Chaoyang RCB is analyzed below:

| | **As at December 27, 2020** |
|---|---|
| Purchase consideration: | |
| Cash paid in 2020 | 1,817,727 |
| Total cash consideration | 1,817,727 |
| Less: cash paid to acquire Chaoyang RCB in 2020 | (1,817,727) |
| Add: cash and cash equivalents held by Chaoyang RCB | 9,252,979 |
| Net cash inflow from acquisition of Chaoyang RCB | 7,435,252 |

**39 Contingent liabilities and commitments**

(a) Financial guarantees and other credit commitments

| **The Group** | **As at December 31,** | | | **As at March 31,** |
|---|---|---|---|---|
| | **2018** | **2019** | **2020** | **2021** |
| Bank acceptances | 1,484,923 | 1,226,593 | 1,580,695 | 1,673,832 |
| Letters of credit | 227,881 | 204,506 | 245,179 | 274,123 |
| Guarantees | 375,587 | 630,337 | 1,222,974 | 1,207,675 |
| Unused limit of credit cards | 7,771,380 | 9,036,803 | 9,655,154 | 9,968,059 |
| **Total** | 9,859,771 | 11,098,239 | 12,704,002 | 13,123,689 |

| **The Bank** | **As at December 31,** | | | **As at March 31,** |
|---|---|---|---|---|
| | **2018** | **2019** | **2020** | **2021** |
| Bank acceptances | 1,484,923 | 1,226,593 | 1,560,695 | 1,653,832 |
| Letters of credit | 227,881 | 204,506 | 245,179 | 274,123 |
| Guarantees | 375,587 | 630,337 | 1,222,974 | 1,207,675 |
| Unused limit of credit cards | 7,771,380 | 9,036,803 | 9,655,154 | 9,968,059 |
| **Total** | 9,859,771 | 11,098,239 | 12,684,002 | 13,103,689 |

(b) Credit risk weighted amounts of financial guarantees and credit commitments

| **The Group** | **As at December 31,** | | | **As at March 31,** |
|---|---|---|---|---|
| | **2018** | **2019** | **2020** | **2021** |
| Financial guarantees and credit commitments | 2,374,176 | 2,348,176 | 2,920,994 | 3,027,312 |

| **The Bank** | **As at December 31,** | | | **As at March 31,** |
|---|---|---|---|---|
| | **2018** | **2019** | **2020** | **2021** |
| Financial guarantees and credit commitments | 2,374,176 | 2,348,176 | 2,905,194 | 3,011,507 |

Credit risk weighted amounts refer to amounts which depend on the status of counterparties and the maturity characteristics, and are calculated in accordance with the CBIRC guidance. Risk weightings used for contingent liabilities and credit commitments range from 0% to 100%.

(c) Capital commitments

| The Group and the Bank | As at December 31, | | | As at March 31, |
|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 |
| Properties and equipments | | | | |
| Contracted, but not provided for | 267,375 | 606,780 | 494,839 | 314,975 |

(d) Legal proceedings

The litigation cases of the group are not expected to have a significant impact on the Group.

(e) Collateral

*Assets as collateral*

The carrying amounts of the Group's assets pledged as collateral under repurchase agreements are as follows:

| | As at December 31, | | | As at March 31, |
|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 |
| Debt securities | 10,691,395 | 16,206,980 | 15,800,728 | 12,971,143 |
| Notes | 12,227,673 | 10,222,910 | 10,491,609 | 5,418,873 |
| **Total** | 22,919,068 | 26,429,890 | 26,292,337 | 18,390,016 |

The liabilities of above collateral were presented in Note 27. All repurchase agreements are due within 12 months from their effective dates.

The carrying amounts of the Group's assets pledged as collateral under borrowings from central banks are as follows:

| | As at December 31, | | | As at March 31, |
|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 |
| Debt securities | 764,331 | 3,197,257 | 34,166,618 | 33,396,563 |
| Loans | 67,795 | 89,021 | 80,550 | 38,650 |
| Notes | — | — | 271,215 | 145,670 |
| **Total** | 832,126 | 3,286,278 | 34,518,383 | 33,580,883 |

The liabilities of above collateral were presented in Note 26.

*Collateral accepted*

The Group accepts bonds and notes as collateral in relevant securities borrowing and lending and repurchase agreement businesses. As at December 31, 2018, 2019 and 2020 and March 31, 2021, the Group did not hold any collateral that can be resold or re-pledged.

(f) Redemption commitments of government bonds

The Group is entrusted by the MOF to underwrite certain government bonds. The investors of the government bonds have a right to redeem the bonds they hold at any time before their maturities, while the Group is obligated to meet redemption requests. The early redemption proceeds for these government bonds are the principal of the bonds plus unpaid interest accrued in accordance with the early redemption agreement.

As at December 31, 2018, 2019 and 2020 and March 31, 2021, the balances of the principals of the Group's government bonds with early redemption obligations were RMB353 million and RMB780 million and RMB1,038 million and RMB132 million respectively. The original maturities of these government bonds range from 3 to 5 years. Management expects the Group's exposure to early redemptions of these bonds will not be material.

The MOF will not provide funding for the early redemptions of these government bonds on a back-to-back basis but will settle the principal and interest upon maturity.

**40 Related party transactions**

(a) Related parties of the Group

(i) Major shareholder

Major shareholders include shareholders with 5% or more interest in the Bank. Shareholder with 5% shareholding or more in the Bank is shown as follows:

| **Shareholding (%)** | **As at December 31,** | | | **As at March 31,** |
|---|---|---|---|---|
| | **2018** | **2019** | **2020** | **2021** |
| Name of shareholder | | | | |
| Guangdong Canvest Investment Co., Ltd. | 5.21% | 5.21% | 5.21% | 5.21% |

(ii) Other related parties

Other related parties include directors, supervisors, senior management of the Bank and their close family members; entities controlled or jointly controlled by directors, supervisors, senior management of the Group and their close family members; and entities controlled or jointly controlled by the major shareholder of the Group as set out in Note 40(a)(i).

(b) Related party transactions and balances

(i) Transactions and balances with major shareholder

| | As at December 31, | | | As at March 31, |
|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 |
| Loans and advances to customers | — | 48,577 | 46,073 | 45,573 |
| Deposits from customers | 852 | 11,324 | 30,234 | 511 |
| Entrusted loans | 190,000 | — | — | — |

The balances with related parties are trade in nature.

| | Years ended December 31, | | | Three months ended March 31, | |
|---|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2020 | 2021 |
| | | | | (Unaudited) | |
| Interest income | — | 565 | 2,362 | 601 | 566 |
| Interest expense | 39 | 46 | 52 | 4 | 5 |
| Fee and commission income | — | 2 | 1 | — | — |

| | Years ended December 31, | | | Three months ended March 31, | |
|---|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2020 | 2021 |
| | | | | (Unaudited) | |
| Range of rates | | | | | |
| Loans and advances to customers | N/A | 5.22% | 5.22% | 5.22% | 5.22% |
| Deposits from customers | 0.35% | 0.35% | 0.35% | 0.35% | 0.35% |
| Commission rate of entrusted loans | 0.06% | N/A | N/A | N/A | N/A |

(ii) Transactions and balances with subsidiaries

| | As at December 31, | | | As at March 31, |
|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 |
| Financial assets held under resale agreements and deposits and placements with banks and other financial institutions | — | 1,044 | 97 | 97 |
| Financial assets sold under repurchase agreements and deposits and placements from banks and other financial institutions | 259,214 | 649,455 | 226,489 | 152,331 |
| Debt securities issued | — | 150,000 | 386,000 | 887,381 |

The balances with related parties are trade in nature.

| | Years ended December 31, | | | Three months ended March 31, | |
|---|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2020 | 2021 |
| | | | | (Unaudited) | |
| Interest income | 1,161 | — | — | — | — |
| Interest expense | 5,956 | 8,670 | 12,311 | 6,190 | 417 |

| | Years ended December 31, | | | Three momths ended March 31, | |
|---|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2020 | 2021 |
| | | | | (Unaudited) | |
| Range of rates | | | | | |
| Financial assets held under resale agreements and deposits and placements with banks and other financial institutions | 2.56% - 5.50% | 2.44% - 3.65% | 0.28% - 2.77% | 0.39% - 2.77% | 0.35% - 2.77% |
| Financial assets sold under repurchase agreements and deposits and placements from banks and other financial institutions | 0.35% - 5.40% | 0.35% - 3.20% | 0.35% - 3.08% | 0.35% - 3.2% | 0.35% - 2.57% |
| Debt securities issued | N/A | 3.50% | 2.94% - 3.75% | 2.94% - 3.33% | 2.43% - 3.75% |

(iii) Transactions and balances with associates

| | As at December 31, | | | As at March 31, |
|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 |
| Financial assets held under resale agreements and deposits and placements with banks and other financial institutions | — | — | 11 | 11 |
| Financial assets sold under repurchase agreements and deposits and placements from banks and other financial institutions | — | 484,706 | 40,210 | 160,000 |

The balances with related parties are trade in nature.

| | Years ended December 31, | | | Three months ended March 31, | |
|---|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2020 | 2021 |
| | | | | (Unaudited) | |
| Interest expense | — | 18,207 | 11,296 | 4,076 | 960 |

| | Years ended December 31, | | | Three months ended March 31, | |
|---|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2020 | 2021 |
| | | | | (Unaudited) | |
| Range of rates | | | | | |
| Financial assets held under resale agreements and deposits and placements with banks and other financial institutions | N/A | N/A | 0.28%-0.31% | 0.28%-3.4% | 0.28%-3.3% |
| Financial assets sold under repurchase agreements and deposits and placements from banks and other financial institutions | N/A | 3.00%-3.40% | 2.25%-3.30% | 2.95%-3.4% | 3.2%-3.3% |

(iv) Transaction and balances with other related parties

As at each of the balance sheet dates, the Group had the following transactions and balances with other related parties:

| | As at December 31, | | | As at March 31, |
|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 |
| Loans and advances to customers | 15,016,278 | 17,369,248 | 18,378,103 | 18,519,466 |
| Deposits from customers | 1,807,089 | 3,950,495 | 5,039,639 | 5,903,651 |
| Principal-guaranteed WMPs issued by the Bank | 182,192 | 70,049 | 21,419 | 18,724 |
| Non-principal-guaranteed WMPs issued by the Bank | 975,659 | 1,782,676 | 1,966,226 | 1,938,184 |
| Other assets — prepayment for construction in progress(1) | — | 143,640 | — | — |
| Other liabilities — payable for civil engineering services | — | 83,626 | 22,509 | 8,528 |
| Right-of-use assets(2) | 11,624 | 8,743 | 20,186 | 18,206 |
| Lease liabilities(2) | 12,043 | 9,242 | 21,677 | 19,637 |

The balances with related parties are trade in nature.

| | Years ended December 31, | | | Three months ended March 31, | |
|---|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2020 | 2021 |
| | | | | (Unaudited) | |
| Interest income | 846,088 | 959,055 | 902,715 | 208,542 | 243,032 |
| Interest expense | 22,827 | 30,688 | 38,368 | 7,717 | 10,659 |
| Fee and commission income | 1,328 | 2,648 | 836 | 135 | 196 |
| Professional service fee | 1,634 | — | — | — | — |
| Leasing expenses | 31 | 395 | 624 | 68 | 82 |

| | Years ended December 31, | | | Three months ended March 31, | |
|---|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2020 | 2021 |
| | | | | (Unaudited) | |
| Range of rates | | | | | |
| Loans and advances to customers | 3.43% - 9.74% | 3.43% - 12% | 3.28% - 8.65% | 3.43% - 9.02% | 3.28% - 9.74% |
| Deposits from customers | 0.35% - 5.50% | 0.35% - 5.50% | 0.35% - 5.50% | 0.35% - 5.50% | 0.35% - 5.50% |
| Management fee rate of principal-guaranteed WMPs issued by the Bank | 0.30% - 2.00% | 0.30% - 1.50% | 0.20% - 1.50% | 0.20% - 1.00% | 0.20% - 1.50% |
| Management fee rate of non-principal-guaranteed WMPs issued by the Bank | 0.30% - 2.30% | 0.10% - 2.30% | 0.20% - 2.00% | 0.20% - 2.00% | 0.20% - 2.00% |

(1) In December 2019, the Bank entered into a construction contract with one related party of the Bank, pursuant to which the related party shall construct a property for the Bank, at a total consideration RMB478.8 million to be paid in accordance with the payment scheme as set out in that contract. Up to March 31, 2021, the Bank had recognized a construction in progress of RMB91.5 million and made a prepayment of RMB83 million to the related party.

(2) During the years ended December 31, 2018, 2019 and 2020 and the three months ended March 31, 2020 and 2021, the Bank incurred RMB3,368 thousand, RMB3,273 thousand, RMB2,724 thousand, RMB1,208 thousand and RMB2,178 thousand for lease contracts with related parties respectively. The lease term ranges from 1 year to 10 years. These leases were accounted for under IFRS 16 and the respective right-of-use assets and lease liabilities were recognized in the consolidated statements of financial position.

(c) Remuneration of key management personnel

Key management personnel refer to those persons who have the authority and responsibility to plan, conduct and control the Bank's activities.

The remuneration of key management personnel in each of the reporting years is as follows:

| | Years ended December 31, | | | Three months ended March 31, | |
|---|---|---|---|---|---|
| | **2018** | **2019** | **2020** | **2020** | **2021** |
| | | | | **(Unaudited)** | |
| Salaries | 14,236 | 24,034 | 15,845 | 3,930 | 3,697 |
| Subsidies and physical benefits | 967 | 1,180 | 599 | 194 | 206 |
| Discretionary bonuses | 30,013 | 24,337 | 22,989 | 10,138 | 8,827 |
| Pension plan contributions | 1,031 | 1,230 | 904 | 231 | 230 |
| **Total** | 46,247 | 50,781 | 40,337 | 14,493 | 12,960 |

(d) Loans and advances balances with directors, supervisors and their certain controlled body corporates and connected entities

| | As at December 31, | | | As at March 31, |
|---|---|---|---|---|
| | **2018** | **2019** | **2020** | **2021** |
| Directors | — | 16,394 | 14,184 | 13,631 |
| Supervisors | 7,834 | 6,458 | 746 | 721 |
| Certain controlled body corporates and connected entities of the directors | 10,191,636 | 10,842,208 | 15,769,654 | 15,922,618 |
| Certain controlled body corporates and connected entities of the supervisors | 179,364 | 816,232 | 1,440,716 | 1,456,971 |
| **Total** | 10,378,834 | 11,681,292 | 17,225,300 | 17,393,941 |

| | As at December 31, 2018 | | | | Years ended December 31, 2018 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Principal | Accrued interest | Provisions | Net book value | Aggregate amounts granted | Maximum outstanding | Aggregate amounts overdue | Term | Interest rate | Security |
| Director and Supervisor (i) | 7,834 | 15 | 41 | 7,808 | — | 9,207 | — | 60 - 120 months | 3.43%- 5.15% | Real estate |
| Certain controlled body corporates and connected entities of the directors and supervisors (ii) | 10,371,000 | 17,626 | 222,569 | 10,166,057 | 6,703,622 | 11,605,039 | — | 2 - 113 months | 4.60% - 8.08% | Real estate, land use right, charge right, shares, and machinery and equipment |
| **Total** | 10,378,834 | 17,641 | 222,610 | 10,173,865 | 6,703,622 | 11,614,246 | — | | | |

(i) The directors and supervisors are Zhou Qingzong, Lu Chaoping and Liu Jianfeng.

(ii) The directors and supervisors are Wang Junyang, Lai Chun Tung, Ye jinquan, Chen Haitao, Liang Peiguang, Cai Guowei, Chen Xipei, Lu Chaoping and Zhou Qingzong.

| | As at December 31, 2019 | | | | Years ended December 31, 2019 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Principal | Accrued interest | Provisions | Net book value | Aggregate amounts granted | Maximum outstanding | Aggregate amounts overdue | Term | Interest rate | Security |
| Director and Supervisor (i) | 22,852 | 59 | 126 | 22,785 | — | 32,487 | — | 119 - 239 months | 3.43% - 5.39% | Real estate |
| Certain controlled body corporates and connected entities of the directors and supervisors (ii) | 11,658,440 | 19,961 | 412,052 | 11,266,349 | 7,874,960 | 15,807,454 | — | 3 - 119 months | 4.6% - 7.60% | Real estate, land use right, charge right, shares, rent and machinery and equipment |
| **Total** | 11,681,292 | 20,020 | 412,178 | 11,289,134 | 7,874,960 | 15,839,941 | — | | | |

(i) The directors and supervisors are Zhang Qinxiang, Zou Zhibiao, Lu Chaoping and Zhou Qinzong.

(ii) The directors and supervisors are Wang Junyang, Ye Jinquan, Lai Chun Tung, Zhang Qinxiang, Chen Haitao, Cai Guowei, Chen Weiliang, Wang Zhujin, Lu Chaoping, Zhou Qinzong, Liang Jiepeng and Zou Zhibiao.

| | As at December 31, 2020 | | | | Years ended December 31, 2020 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Principal | Accrued interest | Provisions | Net book value | Aggregate amounts granted | Maximum outstanding | Aggregate amounts overdue | Term | Interest rate | Security |
| Director and Supervisor (i) | 14,930 | 43 | 74 | 14,899 | — | 17,235 | — | 119 - 239 months | 3.28% - 5.39% | Real estate |
| Certain controlled body corporates and connected entities of the directors and supervisors (ii) | 17,210,370 | 29,040 | 273,784 | 16,965,626 | 12,252,677 | 18,011,379 | — | 9 - 179 months | 4.25% - 7.6% | Real estate, land use right, charge right, shares, rent and machinery and equipment |
| Total | 17,225,300 | 29,083 | 273,858 | 16,980,525 | 12,252,677 | 18,028,614 | — | | | |

(i) The directors and supervisors are Zhang Qingxiang and Lu Chaoping.

(ii) The directors and supervisors are Wang Junyang, Zhang Qingxiang, Chen Haitao, Lai Chun Tung, Ye Jinquan, Cai Guowei, Chen Weiliang, Wang Zhujin, Liang Jiepen, Zou Zhibiao and Lu Chaoping.

| | As at March 31, 2021 | | | | Three months ended March 31, 2021 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Principal | Accrued interest | Provisions | Net book value | Aggregate amounts granted | Maximum outstanding | Aggregate amounts overdue | Term | Interest rate | Security |
| Director and Supervisor (i) | 14,352 | 42 | 64 | 14,330 | — | 14,995 | — | 119 - 239 months | 3.28% - 5.39% | Real estate |
| Certain controlled body corporates and connected entities of the directors and supervisors (ii) | 17,379,589 | 29,390 | 580,563 | 16,828,416 | 3,167,990 | 17,663,090 | — | 9 - 179 months | 4.25% - 8.12% | Real estate, land use right, charge right, shares, rent and machinery and equipment |
| Total | 17,393,941 | 29,432 | 580,627 | 16,842,746 | 3,167,990 | 17,678,085 | — | | | |

(i) The directors and supervisors are Zhang Qingxiang and Lu Chaoping.

(ii) The directors and supervisors are Wang Junyang, Zhang Qingxiang, Chen Haitao, Lai Chun Tung, Ye Jinquan, Cai Guowei, Chen Weiliang, Wang Zhujin, Liang Jiepen, Zou Zhibiao and Lu Chaoping.

**41 Segmental analysis**

(a) Business segments

The Group manages its operations from both business and regional perspectives. From a business perspective, the Group mainly provides financial services through four business segments, which are listed below:

— Corporate banking: Corporate banking business segment covers financial products and services to corporate customers, governments and financial institutions. These products and services include corporate loans and advances, trade finance, deposits, and various other corporate intermediary businesses.

— Personal banking: Personal banking business segment covers financial products and services to individual customers. These products and services include personal loans and advances, deposits, bank cards, and various other individual intermediary businesses.

— Treasury: Treasury segment covers the Group's money market transactions, repurchase transactions, debt instrument investments, wealth management products and precious metals.

— Others: The others segment covers the remaining businesses of the Group that cannot be directly attributable to the above segments, and some assets, liabilities, income or expenses of the Head Office that have not been properly allocated.

From a regional perspective, all businesses of the Group are conducted in Mainland China.

| | Year ended December 31, 2018 | | | | |
|---|---|---|---|---|---|
| | Corporate banking | Personal banking | Treasury | Others | Total |
| External interest income | 6,043,403 | 2,069,226 | 8,002,043 | — | 16,114,672 |
| External interest expense | (2,002,235) | (2,619,601) | (4,172,440) | — | (8,794,276) |
| Inter-segment net interest income or expense | (147,862) | 3,765,851 | (3,617,989) | — | — |
| **Net interest income** | 3,893,306 | 3,215,476 | 211,614 | — | 7,320,396 |
| **Net fee and commission income** | 101,436 | 794,498 | 37,374 | 18,256 | 951,564 |
| Net trading gains or losses | 51,469 | 2,741 | 1,168,799 | — | 1,223,009 |
| Net gains or losses on financial investments | — | — | 48,836 | 33,182 | 82,018 |
| Other operating income | 1 | 47 | 1,071 | 199,481 | 200,600 |
| **Operating income** | 4,046,212 | 4,012,762 | 1,467,694 | 250,919 | 9,777,587 |
| Operating expense | (792,852) | (1,635,029) | (384,291) | (237,157) | (3,049,329) |
| — Depreciation and amortization | (86,598) | (196,800) | (67,941) | (3,825) | (355,164) |
| Expected credit losses and asset losses | (1,073,338) | (26,850) | (616,890) | — | (1,717,078) |
| Share of profits of associates | — | — | — | 23,048 | 23,048 |
| **Profit before tax** | 2,180,022 | 2,350,883 | 466,513 | 36,810 | 5,034,228 |
| **Capital expenditure** | 24,023 | 54,595 | 18,848 | 1,060 | 98,526 |

| | As at December 31, 2018 | | | | |
|---|---|---|---|---|---|
| | Corporate banking | Personal banking | Treasury | Others | Total |
| Segment assets | 109,572,871 | 49,563,443 | 244,791,357 | 2,293,210 | 406,220,881 |
| Unallocated assets | — | — | — | — | 1,683,771 |
| **Total assets** | 109,572,871 | 49,563,443 | 244,791,357 | 2,293,210 | 407,904,652 |
| **Segment liabilities** | 111,191,748 | 156,451,211 | 109,932,428 | 494,692 | 378,070,079 |

| | Year ended December 31, 2019 | | | | |
|---|---|---|---|---|---|
| | Corporate banking | Personal banking | Treasury | Others | Total |
| External interest income | 6,832,457 | 2,917,475 | 7,603,179 | — | 17,353,111 |
| External interest expense | (2,425,978) | (2,753,088) | (3,372,758) | — | (8,551,824) |
| Inter-segment net interest income or expense | 123,846 | 3,442,757 | (3,566,603) | — | — |
| **Net interest income** | 4,530,325 | 3,607,144 | 663,818 | — | 8,801,287 |
| **Net fee and commission income** | 65,289 | 910,462 | 69,925 | 9,097 | 1,054,773 |
| Net trading gains or losses | 76,228 | 6,271 | 1,050,774 | — | 1,133,273 |
| Net gains or losses on financial investments | — | — | 419,400 | 43,474 | 462,874 |
| Other operating income | 1 | 32 | 812 | 342,175 | 343,020 |
| **Operating income** | 4,671,843 | 4,523,909 | 2,204,729 | 394,746 | 11,795,227 |
| Operating expense | (956,272) | (1,935,755) | (518,558) | (125,172) | (3,535,757) |
| — Depreciation and amortization | (81,268) | (177,261) | (58,352) | (3,347) | (320,228) |
| Expected credit losses and asset losses | (455,420) | (334,922) | (1,803,201) | — | (2,593,543) |
| Share of profits of associates | — | — | — | 34,847 | 34,847 |
| **Profit before tax** | 3,260,151 | 2,253,232 | (117,030) | 304,421 | 5,700,774 |
| **Capital expenditure** | 49,562 | 108,104 | 35,587 | 2,040 | 195,293 |

| | As at December 31, 2019 | | | | |
|---|---|---|---|---|---|
| | Corporate banking | Personal banking | Treasury | Others | Total |
| Segment assets | 108,366,068 | 92,373,580 | 256,731,425 | 1,719,614 | 459,190,687 |
| Unallocated assets | — | — | — | — | 2,018,115 |
| **Total assets** | 108,366,068 | 92,373,580 | 256,731,425 | 1,719,614 | 461,208,802 |
| **Segment liabilities** | 130,701,513 | 186,371,651 | 108,041,276 | 622,581 | 425,737,021 |

| | Year ended December 31, 2020 | | | | |
|---|---|---|---|---|---|
| | Corporate banking | Personal banking | Treasury | Others | Total |
| External interest income | 8,269,216 | 4,523,129 | 6,725,259 | — | 19,517,604 |
| External interest expense | (3,028,864) | (3,406,244) | (3,150,117) | — | (9,585,225) |
| Inter-segment net interest income or expense | 40,650 | 3,358,728 | (3,399,378) | — | — |
| **Net interest income** | 5,281,002 | 4,475,613 | 175,764 | — | 9,932,379 |
| **Net fee and commission income** | 138,405 | 764,934 | 22,026 | 15,014 | 940,379 |
| Net trading gains or losses | 81,590 | 45,581 | 754,111 | — | 881,282 |
| Net gains or losses on financial investments | — | — | 433,925 | (252,022) | 181,903 |
| Other operating income | 2 | 132 | — | 110,970 | 111,104 |
| **Operating income** | 5,500,999 | 5,286,260 | 1,385,826 | (126,038) | 12,047,047 |
| Operating expense | (1,263,546) | (2,215,836) | (392,853) | (52,651) | (3,924,886) |
| — Depreciation and amortization | (135,515) | (172,732) | (40,310) | (2,569) | (351,126) |
| Expected credit losses and asset losses | (195,671) | (128,727) | (151,757) | (2,298,180) | (2,774,335) |
| Share of profits of associates | — | — | — | 24,283 | 24,283 |
| **Profit before tax** | 4,041,782 | 2,941,697 | 841,216 | (2,452,586) | 5,372,109 |
| **Capital expenditure** | 227,822 | 290,390 | 67,768 | 4,319 | 590,299 |

| | Year ended December 31, 2020 | | | | |
|---|---|---|---|---|---|
| | Corporate banking | Personal banking | Treasury | Others | Total |
| Segment assets | 136,792,773 | 120,522,083 | 285,346,555 | 2,686,362 | 545,347,773 |
| Unallocated assets | — | — | — | — | 3,054,183 |
| **Total assets** | 136,792,773 | 120,522,083 | 285,346,555 | 2,686,362 | 548,401,956 |
| **Segment liabilities** | 153,686,770 | 227,867,257 | 125,017,329 | 3,187,786 | 509,759,142 |

| | Three months ended March 31, 2020 (Unaudited) | | | | |
|---|---|---|---|---|---|
| | Corporate banking | Personal banking | Treasury | Others | Total |
| External interest income | 2,008,475 | 1,082,534 | 1,666,623 | — | 4,757,632 |
| External interest expense | (693,425) | (747,436) | (789,562) | — | (2,230,423) |
| Inter-segment net interest income or expense | 16,974 | 787,517 | (804,491) | — | — |
| **Net interest income** | 1,332,024 | 1,122,615 | 72,570 | — | 2,527,209 |
| **Net fee and commission income** | 28,934 | 151,065 | 11,093 | 1,181 | 192,273 |
| Net trading gains or losses | 19,007 | 7,742 | 334,513 | — | 361,262 |
| Net gains or losses on financial investments | — | — | 57,600 | — | 57,600 |
| Other operating income | — | 29 | — | 34,687 | 34,716 |
| **Operating income** | 1,379,965 | 1,281,451 | 475,776 | 35,868 | 3,173,060 |
| Operating expense | (363,315) | (549,308) | (81,241) | (14,401) | (1,008,265) |
| — Depreciation and amortization | (68,908) | (31,727) | (7,564) | (709) | (108,908) |
| Expected credit losses and asset losses | (189,548) | (96,981) | (150,691) | — | (437,220) |
| Share of profits of associates | — | — | — | 6,352 | 6,352 |
| **Profit before tax** | 827,102 | 635,162 | 243,844 | 27,819 | 1,733,927 |
| **Capital expenditure** | 148,811 | 68,515 | 16,335 | 1,531 | 235,192 |

| | As at March 31, 2020 (Unaudited) | | | | |
|---|---|---|---|---|---|
| | Corporate banking | Personal banking | Treasury | Others | Total |
| Segment assets | 115,769,522 | 79,711,342 | 261,905,108 | 1,766,858 | 459,152,830 |
| Unallocated assets | — | — | — | — | 1,784,583 |
| **Total assets** | 115,769,522 | 79,711,342 | 261,905,108 | 1,766,858 | 460,937,413 |
| **Segment liabilities** | 133,098,943 | 188,829,229 | 100,998,922 | 419,202 | 423,346,296 |

| | Three months ended March 31, 2021 | | | | |
|---|---|---|---|---|---|
| | Corporate banking | Personal banking | Treasury | Others | Total |
| External interest income | 2,444,952 | 1,223,385 | 1,635,966 | — | 5,304,303 |
| External interest expense | (885,134) | (911,752) | (927,069) | — | (2,723,955) |
| Inter-segment net interest income or expense | (66,000) | 811,014 | (745,014) | — | — |
| **Net interest income** | 1,493,818 | 1,122,647 | (36,117) | — | 2,580,348 |
| **Net fee and commission income** | 31,861 | 147,591 | 3,804 | 10,161 | 193,417 |
| Net trading gains or losses | 34,196 | 16,868 | 257,153 | — | 308,217 |
| Net gains or losses on financial investments | — | — | 66,749 | (9,285) | 57,464 |
| Other operating income | 1 | 76 | — | 16,473 | 16,550 |
| **Operating income** | 1,559,876 | 1,287,182 | 291,589 | 17,349 | 3,155,996 |
| Operating expense | (363,342) | (421,002) | (95,229) | (19,410) | (898,983) |
| — Depreciation and amortization | (53,989) | (54,475) | (15,312) | (819) | (124,595) |
| Expected credit losses and asset losses | (26,273) | (100,386) | (145,894) | — | (272,553) |
| Share of profits of associates | — | — | — | 15,680 | 15,680 |
| **Profit before tax** | 1,170,261 | 765,794 | 50,466 | 13,619 | 2,000,140 |
| **Capital expenditure** | 56,256 | 56,762 | 15,955 | 853 | 129,826 |

| | As at March 31, 2021 | | | | |
|---|---|---|---|---|---|
| | Corporate banking | Personal banking | Treasury | Others | Total |
| Segment assets | 147,630,868 | 99,351,700 | 312,050,487 | 2,436,064 | 561,469,119 |
| Unallocated assets | — | — | — | — | 3,089,073 |
| **Total assets** | 147,630,868 | 99,351,700 | 312,050,487 | 2,436,064 | 564,558,192 |
| **Segment liabilities** | 159,563,566 | 233,254,569 | 130,816,815 | 606,488 | 524,241,438 |

## 42 Financial risk management

Overview

The Group's activities expose it to a variety of financial risks. The Group analyzes and evaluates its risk exposures, and accepts and manages a certain level of such risks or combined risks. Financial risk management is critical to the financial industry in which the Group operates, and business operations inevitably involve financial risks. The Group's aim is to achieve an appropriate balance between risk and return to minimize potential adverse effects on the Group's financial statements.

The Group's risk management policies are designed to identify and analyze related risks, so as to set appropriate risk limits and control processes, and to monitor risks and their limits through reliable processes.

The Board of Directors of the Group is responsible for setting out the overall risk preference, reviewing and approving the Group's risk management objectives and strategies. Senior management is responsible for developing and implementing appropriate risk management policies and procedures based on risk management objectives and strategies. The Board of Supervisors is responsible for supervising and inspecting the risk management and internal control and spurring remedial measures where necessary.

The major financial risks faced by the Group are credit risk, market risk and liquidity risk, and market risk mainly comprises interest rate risk and foreign exchange risk.

### 42.1 Credit risk

42.1.1 Credit risk management

The Group is exposed to credit risk, which is the risk that a customer or counterparty will be unable or unwilling to meet its obligations under a contract. The concentrations of credit risk will increase when counterparties are within similar industry segments or geographical regions. On-balance-sheet credit exposure includes loans and advances to customers, financial investments, deposits and placements with banks and certain other financial assets. There is also off-balance-sheet credit exposure, such as credit commitments, letters of credit, guarantees, and acceptance notes. Currently, the Group's principal business is primarily concentrated in Dongguan City of Guangdong Province in China, which indicates that the Group's credit portfolio is subject to concentration risk and is more susceptible to changes in regional economic conditions. As a result, the management monitors its credit risk prudently. The Risk Management Department at Head Office of the Group is responsible for the daily management of the Group's overall credit risk, and reports to the Group's senior management timely.

The Group adopts standardized management for the whole business procedure of credit business, including credit investigation and declaration, credit review and approval, loan issuance, post-lending monitoring and NPL management. It comprehensively improves the credit risk management level by strictly regulating credit operation procedures, strengthening end-to-end loan management from pre-lending investigation, rating and assigning credit limits, review and approval, loan drawdown review, to post-lending monitoring, improving the risk mitigation effect of collateral, accelerating the recovering and disposal of NPLs, and promoting the upgrading of credit management system.

For the year ended December 31, 2020 and three months ended March 31, 2021, COVID-19 affected the operations of business enterprises in certain industries in some cities and provinces, including Hubei, as well as the overall economic performance of the country, and as a result, had a negative impact on the asset quality of the Group's credit assets and investments. In response to the government's anti-epidemic policies, the Group delivered timely solutions to assist existing customers who had been affected by the outbreak, including relief measures, and at the same time, further enhanced its credit risk monitoring and early warning management system to step up credit risk monitoring. The Group and the Bank actively respond to the change of the credit environment by conducting regular analysis on credit risk situations and matters and taking precautionary risk control measures with a forward-looking vision.

The Non-performing Assets Management Committee is responsible for supervising the recovery and disposal of NPLs. The Group manages its NPLs mainly by the following methods: (1) collection; (2) restructuring; (3) disposal of collateral or seeking recourse against guarantors; (4) litigation or arbitration; and (5) write-off according to regulatory requirements, to minimize its losses from credit risks. If the Group, after executing all necessary procedures, still considers that it is not reasonably possible to expect to recover the whole or part of a loan, it shall be written off. For the years ended December 31, 2018, 2019 and 2020 and the three months ended March 31, 2021, the loans and advances to customers written off by the Group amounted to RMB437 million, RMB1,144 million, RMB787 million and nil respectively.

In addition to risks arising from credit assets, the Group manages the credit risk of treasury operations by carefully selecting banks and other financial institutions with appropriate credit levels as counterparties, balancing credit risk and investment return, comprehensively referring to internal and external credit rating information, grading credit, and using a timely credit line management system to review and adjust the credit line. In addition, the Group provides off-balance-sheet commitments and guarantees for its customers. There is a possibility that the Group will make payments on behalf of customers due to their default, and bear the risk similar to loans. Therefore, the Group adopts risk control procedures and policies similar to the credit business to reduce the credit risk.

42.1.2 Measurement of credit risk

(a) Loans

In accordance with the *Guidelines for the Classification of Loan Risks* issued by CBIRC, the Group establishes a management system regarding to the classification of loan risks, and implements five-level classification management. Loans are classified into five categories based on their risk levels, namely pass, special-mention, sub-standard, doubtful and loss, the latter three of which are regarded as impaired loans and advances. The primary factors considered in impairment assessment for loans include probability of loan repayment and recoverability of principal and interest, which reflect borrowers' repayment ability, repayment record and intention, profitability, guarantees or collateral and legal responsibility of repayment.

The five categories into which the Group classifies its loans and advances to customers are set out below:

— Pass: Borrowers can honor the terms of their loans. There is no reason to doubt their ability to repay principal and interest in full on a timely basis.

— Special-mention: Although there is no doubt on the borrower's ability to repay at this point in time, there exist potential factors that may adversely affect its ability to repay in the future.

— Sub-standard: Borrowers' ability to service their loans is in question and they cannot rely entirely on normal operating revenues to repay the principal and interest. There is possibility of some loss even when guarantee is executed and collateral is realized.

- Doubtful: Borrowers cannot repay principal and interest in full and there is possibility of substantial loss even when guarantee is executed and collateral is realized.

- Loss: After exhausting all possible means of recovery or necessary legal procedures, there is still no recovery of principal and interests, or the recovery is negligible.

(b) Bonds and other notes

The Group manages its credit risk exposures to bonds and other notes by setting restriction of investment size, issuer profile and rating and also post-investment management.

(c) Other financial investments

Other financial investments mainly comprise rights to earnings on credit assets, fund investments and direct financing instruments for WMPs. The Group has rating-based access policies in place towards the cooperating trust companies, securities companies and fund companies. Subsequent risk management is carried out on a regular basis.

(d) Interbank transactions

The Group reviews and monitors credit risk of individual financial institutions periodically and credit quota has been maintained for each bank and other institutions that having transactions with the Group.

(e) Financial guarantees and credit commitments

The primary purpose of financial guarantees and credit commitments is to ensure that customers can acquire the funds needed. Guarantees, acceptances of bills and letters of credit represent irrevocable commitments of the Group to fulfill the obligations of payment to a third party when the customers are unable to do so, with the same credit risk as loans. The amount of potential credit risk faced by the Group is equal to the total amount of its financial guarantees and credit commitments.

42.1.3 Risk limit control and mitigation measures

The Group prudently manages and controls the concentration of credit risk, including single borrower, group, industry and region. The Group has established related mechanism to set up credit risk limit which is bearable for single borrower, and make an assessment on credit risk limit at least once a year.

The Group has established a series of policies and taken various measures to mitigate the credit risk. Obtaining collateral, deposits and corporate or individual guarantee is one of important means for the Group to control the credit risk.

The collateral policy established by the Group stipulates the type of specific collateral that is acceptable, mainly including:

- Housing;

- Business assets such as premises, inventory and accounts receivable;

- Financial instruments such as debt securities and stocks.

The fair value of collateral or pledge is generally determined with the help of specialized valuation agencies designated by the Group. In order to reduce the credit risk, the Group has defined the maximum loan-to-value ratio (the ratio of the loan amount to the fair value of collateral or pledge) for different collateral or pledge. The main types of collateral or pledge for loans and advances and the corresponding maximum loan-to-value ratio are as follows:

| **Collateral** | **Maximum loan-to-value ratio** | **Pledge** | **Maximum loan-to-value ratio** |
|---|---|---|---|
| Real estate — residential | 70% | Wealth Management Products | 95% |
| Real estate — commercial | 70% | Certificates of deposit | 95% |
| Machineries | 30% | Treasury bonds (certificate bonds and saving bonds) | 95% |
| Means of transportation | 40% | Bank acceptance bills | 95% |
| Mining right | 40% | Precious metal | 80% |
| Forest rights | 40% | Inventories | 30% |
| Rural land use rights | 50% | Shares of public company listed on main boards | 60% |
| | | Intellectual properties | 20% |

For loans guaranteed by a third-party guarantor, the Group will assess the financial condition, credit history and ability to meet obligations of the guarantor.

42.1.4 Policies on provision for expected credit loss

The Group uses the "ECL model" to make provision for the impairment of financial assets measured at amortized cost and those designated at fair value through other comprehensive income, loan commitments and financial guarantee contracts.

(1) Division of stages

For financial instruments included in the measurement of ECL, the Group applies "three-stage" impairment model to measure the loss allowance and recognize the ECL in assessing whether the credit risk on a financial instrument has increased significantly since initial recognition.

— Stage 1: If the credit risk on a financial instrument has not increased significantly since initial recognition, the loss stage is classified as Stage 1.

— Stage 2: If the credit risk has increased significantly since initial recognition but it is not considered that the credit has been impaired on the financial instrument, the loss stage is classified as Stage 2.

— Stage 3: If the credit has been impaired on the financial instrument, the loss stage is classified as Stage 3.

The loss allowance for the financial instruments at Stage 1 is determined at the amount of the ECL on the financial instrument within the next 12 months. The loss allowance for the financial instruments at Stage 2 and Stage 3 is determined at the amount of the ECL on the financial instrument within the lifetime.

Various factors, such as five-level classification, number of overdue days and changes in credit ratings, will be taken into account when the credit risk increases significantly during assessment. These three stages are transferable. Financial instruments in the Stage 1 should be downgraded into Stage 2 in case of significant deterioration of credit risk.

(2) Judgement criteria for significant increase in credit risk

When one or more of the following quantitative and qualitative criteria or limit indicators are triggered, the Group considers that the credit risk of financial instrument has been significantly increased:

— The debtor breaches the contract and the principal or interest of the contract was overdue for more than 30 days.

— The significant negative influences appears in business, financing or economic position and indication for cash flow or liquidity problems for debtor.

— The principal or interest of bills, financial investments and financial assets with banks and other financial institutions was overdue for not more than 30 days.

— The debtor's external credit rating (issuer rating) is lower than the AA and higher than the CCC investment grade, comparing with its initial recognition date.

— There are significant changes in the economic, technical or legal environment in which the debtor is located in the current period or in the near future, and the Group will be affected adversely.

After the outbreak of COVID-19, in response to the government's anti-pandemic policies, the Group delivered relief measures to assist existing customers who had been affected. The Group prudently assesses the repayment ability of customers who apply for loan relief measures, and adopts measures, including deferred interest repayment, repayment plan adjustment, etc., for those meeting the policy standards, and at the same time, the Group also evaluates whether the credit risks of these customers have increased significantly.

In the years ended December 31, 2018, 2019 and 2020 and the three months ended March 31, 2020 and 2021, the Group did not consider any financial instruments as having low credit risk, so that its credit risk did not need to be evaluated on the reporting date, comparing with its initial recognition date.

(3) Definition of default and incurred loss

A financial asset will be defined as defaulted if it meets one or more of the following quantitative and qualitative criteria or limit indicators. This criterion is consistent with the definition of incurred loss:

— The debtor breached the contract and the principal or interest of the contract was overdue for more than 90 days.

— The principal or interest of bills, financial investments and financial assets with banks and other financial institutions was overdue for more than 30 days.

— The debtor's external credit rating (issuer rating) is lower than the CCC (inclusive) investment grade, or a default has occurred, comparing with its initial recognition date.

— The debtor is likely to go bankrupt or face other financial restructuring.

— The issuer of the financial instruments held by the Group is experiencing significant financial difficulty.

— The Group, for economic or legal reasons, grants a concession to the debtor who has financial difficulty.

— The active market for relevant financial assets disappears due to the financial difficulty of the borrower.

The above criteria apply to all financial instruments held by the Group; the definition of default is consistently applied to the ECL calculation process of the Group, including the model building of probability of default (PD), exposure at default (EAD) and loss given default (LGD).

When a financial instrument does not qualify for default for six consecutive months, the Group no longer considers it as an asset in default (it has been reversed). The Group adopts an observation period of six months based on relevant analyzes in which the Group has considered the possibility of a financial instrument re-entering the default status in various scenarios after it has been reversed.

(4) Calculation of expected credit loss: description of parameters, assumptions, and estimation techniques

The Group calculates the provision for impairment losses of different types of assets as 12-month ECL or lifetime ECL based on whether there was significant increase in credit risk and whether credit impairment occurred for assets. ECL is the product of exposure at default (EAD), probability of default (PD) and loss given default (LGD) after term adjustment and discount. Relevant definitions are as follows:

PD refers to the possibility that borrowers are unable to perform their repayment obligation in the next 12 months or during the rest of the lifetime.

LGD refers to the percentage of the risk exposure loss in the event of default. LGD varies with the type of the counterparty in the transaction, and the accessibility of collateral and other credit supports.

EAD refers to the repayment due to the Group when default occurs in the next 12 months or during the rest of the lifetime. The Group's EAD is determined based on the expected repayment arrangements and different types of products will have different EAD. For loans repaid on an installment basis or in a lump sum, the Group determines the EAD based on the repayment plan as agreed in the contract.

The Group determines the ECL by estimating the PD, LGD and EAD of an individual loan in each period. It multiplies these three values and adjusts their existence (in case of no early repayment or default). This approach can effectively calculate the ECL of each future period. The calculation results of all periods are then discounted to the reporting date and summed up. Discount rates used to calculate the ECL are the actual interest rate or the approximation thereof.

In 2018, 2019 and 2020 and for the three months ended March 31, 2021, there was no significant change in the above estimation techniques or key assumptions.

(5) Forward-looking information in the expected credit loss model

Through historical data analysis, the Group identifies key economic indicators that affect the credit risk and ECL of each business types, such as China real estate climate index, year-on-year (YOY) growth rate of registered urban unemployment rate, YOY growth rate of money supply (M2), business climate index, YOY accumulated consumer price index and YOY accumulated Balance of Trade.

The Group considers internal and external data, expert forecasts and statistical analysis to determine the relationship between these economic indicators and PD. The Group regularly conducts the forecast on three types of domestic macro scenarios and macro-economic indicators such as optimistic, basic and pessimistic for asset impairment model.

In 2020, the impact of COVID-19 on the macro economy and the banking industry was fully considered in the forward-looking information used by the Group to assess the measurement model of expected credit losses.

As at December 31, 2018, comparing with the weighted average scenario, the Group's credit impairment provision would decrease by RMB551 million under the base scenario, increase by RMB1,140 million under the pessimistic scenario and decrease by RMB1,791 million under the optimistic scenario; the Bank's credit impairment provision would decrease by RMB532 million under the base scenario, increase by RMB811million under the pessimistic scenario and decrease by RMB1,982 million under the optimistic scenario.

As at December 31, 2019, comparing with the weighted average scenario, the Group's credit impairment provision would decrease by RMB1,032 million under the base scenario, increase by RMB 1,512 million under the pessimistic scenario and decrease by RMB3,290 million under the optimistic scenario; the Bank's credit impairment provision would decrease by RMB626 million under the base scenario, increase by RMB981 million under the pessimistic scenario and decrease by RMB2,567 million under the optimistic scenario.

As at December 31, 2020, comparing with the weighted average scenario, the Group's credit impairment provision would decrease by RMB4,045 million under the base scenario, increase by RMB 5,360 million under the pessimistic scenario and decrease by RMB7,794 million under the optimistic scenario; the Bank's credit impairment provision would decrease by RMB3,761 million under the base scenario, increase by RMB4,985 million under the pessimistic scenario and decrease by RMB7,248 million under the optimistic scenario.

As at March 31, 2021, comparing with the weighted average scenario, the Group's credit impairment provision would decrease by RMB4,446 million under the base scenario, increase by RMB5,859 million under the pessimistic scenario and decrease by RMB8,268 million under the optimistic scenario; the Bank's credit impairment provision would decrease by RMB4,058 million under the base scenario, increase by RMB5,352 million under the pessimistic scenario and decrease by RMB7,586 million under the optimistic scenario.

(6) The Group's management have taken other factors that are not included in the model into account, and additional adjustment have been made to the ECL (the "Management overlay") to improve its risk compensation capability.

In 2020 and the period ended March 31, 2021, the Group assessed the relevant impacts under the expected credit loss model with consideration to the significant impact of COVID-19 on the macro economy, and increased the loss provision for loan assets receiving relief solutions and loan assets of industries highly affected by COVID-19 to further boost the risk compensation capability. The amount increased is considered to be insignificant compared to the loss provision.

(7) Grouping for ECL provision

The Group classified the exposures with similar characteristics when collectively assessing the ECL provision.

The characteristics for grouping are as follows:

**Personal loans**

- Product types (for instance, personal business loans, personal consumption loans, personal property mortgages, credit cards)

**Corporate loans**

- Industry

Exposures evaluated by impairment assessment

- Corporate loans in Stage 3

Credit risk team monitors and reviews the grouping appropriateness regularly.

42.1.5 Maximum exposures to credit risk before considering collateral held or other credit enhancements

| The Group | As at December 31, 2018 | | | | |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | N/A | Total |
| **Assets** | | | | | |
| Balances with central banks | 38,686,306 | — | — | — | 38,686,306 |
| Financial assets held under resale agreements and deposits and placements with banks and other financial institutions | 15,033,574 | — | — | — | 15,033,574 |
| Loans and advances to customers | 155,752,520 | 1,140,561 | 552,580 | — | 157,445,661 |
| Financial investments | | | | | |
| — Financial assets at fair value through profit or loss | — | — | — | 34,974,737 | 34,974,737 |
| — Financial investments at amortized cost | 67,473,764 | 505,795 | — | — | 67,979,559 |
| — Financial investments at fair value through other comprehensive income | 82,762,102 | 2,592,650 | 76,409 | 611,943 | 86,043,104 |
| Other financial assets[(a)] | 57,857 | — | — | — | 57,857 |
| Sub-total | 359,766,123 | 4,239,006 | 628,989 | 35,586,680 | 400,220,798 |
| **Off-balance sheet items** | | | | | |
| Bank acceptances | 1,454,085 | — | — | — | 1,454,085 |
| Letters of credit | 227,102 | — | — | — | 227,102 |
| Guarantees | 372,010 | — | — | — | 372,010 |
| Unused limit of credit cards | 7,764,250 | 6,728 | 402 | — | 7,771,380 |
| Sub-total | 9,817,447 | 6,728 | 402 | — | 9,824,577 |
| **Total** | 369,583,570 | 4,245,734 | 629,391 | 35,586,680 | 410,045,375 |

| The Group | As at December 31, 2019 | | | | |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | N/A | Total |
| **Assets** | | | | | |
| Balances with central banks | 37,101,062 | — | — | — | 37,101,062 |
| Financial assets held under resale agreements and deposits and placements with banks and other financial institutions | 21,299,663 | — | — | — | 21,299,663 |
| Loans and advances to customers | 196,720,730 | 1,634,922 | 614,986 | — | 198,970,638 |
| Financial investments | | | | | |
| — Financial assets at fair value through profit or loss | — | — | — | 30,254,846 | 30,254,846 |
| — Financial investments at amortized cost | 86,658,332 | 211,246 | — | — | 86,869,578 |
| — Financial investments at fair value through other comprehensive income | 75,162,734 | 2,151,711 | 473,291 | 563,149 | 78,350,885 |
| Other financial assets[(a)] | 166,095 | — | — | — | 166,095 |
| Sub-total | 417,108,616 | 3,997,879 | 1,088,277 | 30,817,995 | 453,012,767 |
| **Off-balance sheet items** | | | | | |
| Bank acceptances | 1,201,940 | — | — | — | 1,201,940 |
| Letters of credit | 203,830 | — | — | — | 203,830 |
| Guarantees | 622,963 | — | — | — | 622,963 |
| Unused limit of credit cards | 9,009,524 | 8,425 | 18,854 | — | 9,036,803 |
| Sub-total | 11,038,257 | 8,425 | 18,854 | — | 11,065,536 |
| **Total** | 428,146,873 | 4,006,304 | 1,107,131 | 30,817,995 | 464,078,303 |

| The Group | As at December 31, 2020 | | | | |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | N/A | Total |
| **Assets** | | | | | |
| Balances with central banks | 36,144,159 | — | — | — | 36,144,159 |
| Financial assets held under resale agreements and deposits and placements with banks and other financial institutions | 18,707,434 | — | — | — | 18,707,434 |
| Loans and advances to customers | 252,027,424 | 2,027,049 | 587,289 | — | 254,641,762 |
| Financial investments | | | | | |
| — Financial assets at fair value through profit or loss | — | — | — | 36,101,567 | 36,101,567 |
| — Financial investments at amortized cost | 111,454,975 | 177,889 | 35,069 | — | 111,667,933 |
| — Financial investments at fair value through other comprehensive income | 77,400,061 | 1,165,685 | 811,150 | 566,705 | 79,943,601 |
| Other financial assets[(a)] | 503,309 | — | — | — | 503,309 |
| Sub-total | 496,237,362 | 3,370,623 | 1,433,508 | 36,668,272 | 537,709,765 |
| **Off-balance sheet items** | | | | | |
| Bank acceptances | 1,579,874 | — | 821 | — | 1,580,695 |
| Letters of credit | 245,179 | — | — | — | 245,179 |
| Guarantees | 1,222,974 | — | — | — | 1,222,974 |
| Unused limit of credit cards | 9,465,079 | 31,465 | 158,610 | — | 9,655,154 |
| Sub-total | 12,513,106 | 31,465 | 159,431 | — | 12,704,002 |
| **Total** | 508,750,468 | 3,402,088 | 1,592,939 | 36,668,272 | 550,413,767 |

| The Group | As at March 31, 2021 | | | | |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | N/A | Total |
| **Assets** | | | | | |
| Balances with central banks | 34,325,950 | — | — | — | 34,325,950 |
| Financial assets held under resale agreements and deposits and placements with banks and other financial institutions | 19,338,941 | — | — | — | 19,338,941 |
| Loans and advances to customers | 266,560,322 | 1,433,315 | 696,246 | — | 268,689,883 |
| Financial investments | | | | | |
| — Financial assets at fair value through profit or loss | — | — | — | 37,097,217 | 37,097,217 |
| — Financial investments at amortized cost | 109,521,468 | 248,918 | — | — | 109,770,386 |
| — Financial investments at fair value through other comprehensive income | 82,132,797 | 979,427 | 451,594 | 575,204 | 84,139,022 |
| Other financial assets[(a)] | 267,223 | — | — | — | 267,223 |
| Sub-total | 512,146,701 | 2,661,660 | 1,147,840 | 37,672,421 | 553,628,622 |
| **Off-balance sheet items** | | | | | |
| Bank acceptances | 1,589,681 | 83,330 | 821 | — | 1,673,832 |
| Letters of credit | 274,123 | — | — | — | 274,123 |
| Guarantees | 1,199,674 | 8,001 | — | — | 1,207,675 |
| Unused limit of credit cards | 9,968,059 | — | — | — | 9,968,059 |
| Sub-total | 13,031,537 | 91,331 | 821 | — | 13,123,689 |
| **Total** | 525,178,238 | 2,752,991 | 1,148,661 | 37,672,421 | 566,752,311 |

(a) Other financial assets include interest receivable and other receivables.

42.1.6 Loans and advances to customers

(a) Industry analysis

| The Group | As at December 31, 2018 | | As at December 31, 2019 | | As at December 31, 2020 | | As at March 31, 2021 | |
|---|---|---|---|---|---|---|---|---|
| | Amount | % | Amount | % | Amount | % | Amount | % |
| **Corporate loans and advances** | | | | | | | | |
| Wholesale and retail | 20,452,755 | 12.43% | 23,342,203 | 11.34% | 22,739,694 | 8.68% | 24,324,714 | 8.80% |
| Leasing and commercial services | 19,595,607 | 11.90% | 22,636,244 | 10.97% | 24,737,267 | 9.44% | 27,505,478 | 9.95% |
| Manufacturing | 14,325,940 | 8.70% | 16,944,425 | 8.21% | 27,023,030 | 10.32% | 27,839,176 | 10.08% |
| Construction | 16,908,784 | 10.27% | 17,791,344 | 8.63% | 20,821,976 | 7.95% | 22,276,213 | 8.06% |
| Real estate | 8,407,745 | 5.11% | 9,259,069 | 4.49% | 10,804,318 | 4.12% | 12,667,618 | 4.58% |
| Finance | — | 0.00% | — | 0.00% | 7,514,009 | 2.87% | 5,603,508 | 2.03% |
| Production and supply of power, gas and water | 4,878,783 | 2.96% | 4,501,786 | 2.18% | 5,322,414 | 2.03% | 5,906,007 | 2.14% |
| Transportation, logistics and postal services | 2,075,756 | 1.26% | 3,449,037 | 1.67% | 3,898,019 | 1.49% | 3,804,003 | 1.38% |
| Water, environment and public utilities management | 2,070,262 | 1.26% | 1,804,002 | 0.87% | 2,101,477 | 0.80% | 2,330,973 | 0.84% |
| Health, social security, and welfare | 1,465,869 | 0.89% | 2,008,722 | 0.97% | 2,539,030 | 0.97% | 2,537,037 | 0.92% |
| Education | 994,093 | 0.60% | 1,715,793 | 0.83% | 2,212,017 | 0.84% | 2,255,880 | 0.82% |
| Information transmission, software and IT services | 924,698 | 0.56% | 757,869 | 0.37% | 823,027 | 0.31% | 1,087,365 | 0.39% |
| Hotels and catering industries | 920,717 | 0.56% | 1,138,353 | 0.55% | 1,381,991 | 0.53% | 1,355,186 | 0.49% |
| Agriculture, forestry, animal husbandry and fishery | 802,865 | 0.49% | 988,920 | 0.48% | 1,291,506 | 0.49% | 1,501,575 | 0.54% |
| Residential services and other services | 748,632 | 0.45% | 565,495 | 0.27% | 378,874 | 0.14% | 353,307 | 0.13% |
| Culture, sports, and entertainment | 539,471 | 0.33% | 504,499 | 0.24% | 437,245 | 0.17% | 38,426 | 0.01% |
| Scientific research and technical services, and geological prospecting | 348,516 | 0.21% | 262,343 | 0.13% | 254,756 | 0.10% | 239,303 | 0.09% |
| Mining | 10,800 | 0.01% | 5,000 | 0.00% | 5,000 | 0.00% | — | 0.00% |
| Public management and social organizations | 8,771 | 0.01% | 7,164 | 0.00% | 13,655 | 0.01% | 23,856 | 0.01% |
| **Sub-total** | 95,480,064 | 58.00% | 107,682,268 | 52.20% | 134,299,305 | 51.26% | 141,649,625 | 51.26% |
| **Personal loans and advances** | | | | | | | | |
| Operational loans | 9,766,506 | 5.93% | 18,001,008 | 8.73% | 25,609,633 | 9.78% | 27,604,002 | 9.99% |
| Property mortgages | 23,568,308 | 14.31% | 32,441,169 | 15.73% | 37,665,358 | 14.38% | 39,788,331 | 14.40% |
| Advances of credit cards | 10,870,652 | 6.60% | 10,516,314 | 5.10% | 8,223,874 | 3.14% | 7,601,216 | 2.75% |
| Consumption loans | 5,336,279 | 3.24% | 19,089,851 | 9.26% | 26,517,031 | 10.12% | 30,080,262 | 10.89% |
| **Sub-total** | 49,541,745 | 30.08% | 80,048,342 | 38.82% | 98,015,896 | 37.42% | 105,073,811 | 38.03% |
| **Rediscounted bills and other loans** | 19,331,004 | 11.74% | 18,096,198 | 8.77% | 29,135,410 | 11.12% | 29,027,241 | 10.50% |
| **Accrued interest** | 304,589 | 0.18% | 438,358 | 0.21% | 531,968 | 0.20% | 591,851 | 0.21% |
| **Total loans and advances to customers** | 164,657,402 | 100.00% | 206,265,166 | 100.00% | 261,982,579 | 100.00% | 276,342,528 | 100.00% |

(b) Type of collateral analysis

| The Group | As at December 31, | | As at March 31, | |
|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 |
| Collateralized loans | 88,589,116 | 113,050,801 | 134,641,697 | 144,891,543 |
| Pledged loans | 30,769,170 | 28,847,699 | 39,107,865 | 39,371,234 |
| Guaranteed loans | 31,566,841 | 35,717,162 | 54,441,652 | 57,356,985 |
| Unsecured loans | 13,427,686 | 28,211,146 | 33,259,397 | 34,130,915 |
| Sub-total | 164,352,813 | 205,826,808 | 261,450,611 | 275,750,677 |
| Accrued interest | 304,589 | 438,358 | 531,968 | 591,851 |
| **Total** | 164,657,402 | 206,265,166 | 261,982,579 | 276,342,528 |

(c) Concentration analysis by geographical regions

| The Group | As at December 31, 2018 | | As at December 31, 2019 | | As at December 31, 2020 | | As at March 31, 2021 | |
|---|---|---|---|---|---|---|---|---|
| | Amount | % | Amount | % | Amount | % | Amount | % |
| Dongguan | 155,563,219 | 94.48% | 169,039,030 | 81.95% | 214,171,472 | 81.75% | 220,674,871 | 79.87% |
| Zhanjiang | — | — | 11,940,381 | 5.79% | 14,320,357 | 5.47% | 15,670,660 | 5.67% |
| Others | 8,789,594 | 5.34% | 24,847,397 | 12.05% | 32,958,782 | 12.58% | 39,405,145 | 14.26% |
| Accrued interest | 304,589 | 0.18% | 438,358 | 0.21% | 531,968 | 0.20% | 591,852 | 0.20% |
| **Total** | 164,657,402 | 100.00% | 206,265,166 | 100.00% | 261,982,579 | 100.00% | 276,342,528 | 100.00% |

Concentration analysis of overdue loans and advances to customers by geographical regions

| The Group | As at December 31, 2018 | | As at December 31, 2019 | | As at December 31, 2020 | | As at March 31, 2021 | |
|---|---|---|---|---|---|---|---|---|
| | Amount | % | Amount | % | Amount | % | Amount | % |
| Dongguan | 2,520,669 | 78.34% | 2,253,267 | 75.51% | 1,506,259 | 59.11% | 2,032,086 | 64.56% |
| Zhanjiang | — | — | 508,836 | 17.05% | 352,520 | 13.83% | 499,656 | 15.87% |
| Others | 696,897 | 21.66% | 222,106 | 7.44% | 689,457 | 27.06% | 615,907 | 19.57% |
| **Total** | 3,217,566 | 100.00% | 2,984,209 | 100.00% | 2,548,236 | 100.00% | 3,147,649 | 100.00% |

(d) Analysis by overdue days and impairment evaluation

(1) The maximum credit risk exposures of loans and advances are analyzed by overdue days as follows:

| **The Group** | **As at December 31, 2018** | | | |
|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
| Corporate loans and advances | | | | |
| Overdue days | | | | |
| Not overdue | 109,608,729 | 1,647,538 | 1,166,324 | 112,422,591 |
| Between 0 and 30 days | 27,982 | 241,364 | — | 269,346 |
| Between 30 and 60 days | — | 412,356 | 57,311 | 469,667 |
| Between 60 and 90 days | — | 45,969 | 40,645 | 86,614 |
| More than 90 days/Default | — | — | 1,740,884 | 1,740,884 |
| **Total** | 109,636,711 | 2,347,227 | 3,005,164 | 114,989,102 |
| Provision for ECL | (2,139,082) | (1,301,725) | (2,520,690) | (5,961,497) |
| **Net amount** | 107,497,629 | 1,045,502 | 484,474 | 109,027,605 |

| **The Group** | **As at December 31, 2018** | | | |
|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
| Personal loans and advances | | | | |
| Overdue days | | | | |
| Not overdue | 48,970,240 | 43,143 | 3,862 | 49,017,245 |
| Between 0 and 30 days | 90,991 | 42,486 | 941 | 134,418 |
| Between 30 and 60 days | — | 92,301 | 77,152 | 169,453 |
| Between 60 and 90 days | — | 53,580 | 10,867 | 64,447 |
| More than 90 days/Default | — | — | 282,737 | 282,737 |
| **Total** | 49,061,231 | 231,510 | 375,559 | 49,668,300 |
| Provision for ECL | (806,340) | (136,451) | (307,453) | (1,250,244) |
| **Net amount** | 48,254,891 | 95,059 | 68,106 | 48,418,056 |

| The Group | As at December 31, 2019 | | | |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| Corporate loans and advances | | | | |
| Overdue days | | | | |
| Not overdue | 120,698,077 | 2,154,769 | 1,201,031 | 124,053,877 |
| Between 0 and 30 days | 67,671 | 209,241 | 883 | 277,795 |
| Between 30 and 60 days | — | 76,605 | 22,018 | 98,623 |
| Between 60 and 90 days | — | 50,551 | 97,229 | 147,780 |
| More than 90 days/Default | — | — | 1,436,902 | 1,436,902 |
| **Total** | 120,765,748 | 2,491,166 | 2,758,063 | 126,014,977 |
| Provision for ECL | (2,253,170) | (1,221,114) | (2,244,738) | (5,719,022) |
| **Net amount** | 118,512,578 | 1,270,052 | 513,325 | 120,295,955 |

| The Group | As at December 31, 2019 | | | |
|---|---|---|---|---|
| Personal loans and advances | Stage 1 | Stage 2 | Stage 3 | Total |
| Overdue days | | | | |
| Not overdue | 79,070,921 | 146,866 | 9,293 | 79,227,080 |
| Between 0 and 30 days | 225,561 | 157,946 | 5,840 | 389,347 |
| Between 30 and 60 days | 14,536 | 140,183 | 29,078 | 183,797 |
| Between 60 and 90 days | — | 66,265 | 47,574 | 113,839 |
| More than 90 days/Default | — | — | 336,126 | 336,126 |
| **Total** | 79,311,018 | 511,260 | 427,911 | 80,250,189 |
| Provision for ECL | (1,102,866) | (146,390) | (326,250) | (1,575,506) |
| **Net amount** | 78,208,152 | 364,870 | 101,661 | 78,674,683 |

| The Group | As at December 31, 2020 | | | |
|---|---|---|---|---|
| Corporate loans and advances | Stage 1 | Stage 2 | Stage 3 | Total |
| Overdue days | | | | |
| Not overdue | 158,443,070 | 3,187,454 | 924,868 | 162,555,392 |
| Between 0 and 30 days | 10,606 | 81,041 | 14,080 | 105,727 |
| Between 30 and 60 days | — | 26,659 | 7,000 | 33,659 |
| Between 60 and 90 days | — | 39,681 | 25,486 | 65,167 |
| More than 90 days/Default | — | — | 985,988 | 985,988 |
| **Total** | 158,453,676 | 3,334,835 | 1,957,422 | 163,745,933 |
| Provision for ECL | (2,406,004) | (1,755,896) | (1,523,624) | (5,685,524) |
| **Net amount** | 156,047,672 | 1,578,939 | 433,798 | 158,060,409 |

| The Group | As at December 31, 2020 | | | |
|---|---|---|---|---|
| Personal loans and advances | Stage 1 | Stage 2 | Stage 3 | Total |
| Overdue days | | | | |
| Not overdue | 96,549,633 | 274,358 | 54,960 | 96,878,951 |
| Between 0 and 30 days | 208,096 | 135,811 | 25,626 | 369,533 |
| Between 30 and 60 days | — | 164,662 | 77,622 | 242,284 |
| Between 60 and 90 days | — | 70,067 | 130,908 | 200,975 |
| More than 90 days/Default | — | — | 544,903 | 544,903 |
| **Total** | 96,757,729 | 644,898 | 834,019 | 98,236,646 |
| Provision for ECL | (777,977) | (196,788) | (680,528) | (1,655,293) |
| **Net amount** | 95,979,752 | 448,110 | 153,491 | 96,581,353 |

| The Group | As at March 31, 2021 | | | |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| Corporate loans and advances | | | | |
| Overdue days | | | | |
| Not overdue | 165,687,002 | 1,832,658 | 1,903,575 | 169,423,235 |
| Between 0 and 30 days | 240,194 | 155,448 | 107,569 | 503,211 |
| Between 30 and 60 days | — | 7,543 | 6,454 | 13,997 |
| Between 60 and 90 days | — | 47,483 | 2,035 | 49,518 |
| More than 90 days/Default | — | — | 1,033,296 | 1,033,296 |
| **Total** | 165,927,196 | 2,043,132 | 3,052,929 | 171,023,257 |
| Provision for ECL | (2,287,224) | (1,133,578) | (2,510,331) | (5,931,133) |
| **Net amount** | 163,639,972 | 909,554 | 542,598 | 165,092,124 |

| The Group | As at March 31, 2021 | | | |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| Personal loans and advances | | | | |
| Overdue days | | | | |
| Not overdue | 103,383,749 | 337,543 | 50,352 | 103,771,644 |
| Between 0 and 30 days | 190,837 | 167,546 | 4,682 | 363,065 |
| Between 30 and 60 days | — | 238,657 | 19,398 | 258,055 |
| Between 60 and 90 days | — | 108,637 | 142,861 | 251,498 |
| More than 90 days/Default | — | — | 675,009 | 675,009 |
| **Total** | 103,574,586 | 852,383 | 892,302 | 105,319,271 |
| Provision for ECL | (654,237) | (328,621) | (738,654) | (1,721,512) |
| **Net amount** | 102,920,349 | 523,762 | 153,648 | 103,597,759 |

(2) Overdue loans and advances to customers are set out by collateral type and overdue days as follows:

| The Group | As at December 31, 2018 | | | | |
|---|---|---|---|---|---|
| | Overdue between 1 and 90 days (inclusive) | Overdue between 90 days and 1 year (inclusive) | Overdue between 1 and 3 years (inclusive) | Overdue for more than 3 years | Total |
| Unsecured loans | 57,572 | 75,842 | 733 | 92 | 134,239 |
| Guaranteed loans | 297,044 | 315,303 | 157,033 | 2,775 | 772,155 |
| Collateralized loans | 460,264 | 372,820 | 427,636 | 319,677 | 1,580,397 |
| Pledged loans | 379,065 | 293,477 | 55,312 | 2,921 | 730,775 |
| **Total** | 1,193,945 | 1,057,442 | 640,714 | 325,465 | 3,217,566 |

| The Group | As at December 31, 2019 | | | | |
|---|---|---|---|---|---|
| | Overdue between 1 and 90 days (inclusive) | Overdue between 90 days and 1 year (inclusive) | Overdue between 1 and 3 years (inclusive) | Overdue for more than 3 years | Total |
| Unsecured loans | 202,228 | 47,601 | 39,976 | 10,996 | 300,801 |
| Guaranteed loans | 215,381 | 107,698 | 273,094 | 6,943 | 603,116 |
| Collateralized loans | 784,143 | 307,593 | 278,468 | 52,947 | 1,423,151 |
| Pledged loans | 9,429 | 229,563 | 413,770 | 4,379 | 657,141 |
| **Total** | 1,211,181 | 692,455 | 1,005,308 | 75,265 | 2,984,209 |

| The Group | As at December 31, 2020 | | | | |
|---|---|---|---|---|---|
| | Overdue between 1 and 90 days (inclusive) | Overdue between 90 days and 1 year (inclusive) | Overdue between 1 and 3 years (inclusive) | Overdue for more than 3 years | Total |
| Unsecured loans | 400,081 | 149,112 | 57,043 | 14,790 | 621,026 |
| Guaranteed loans | 149,125 | 54,754 | 188,803 | 73,084 | 465,766 |
| Collateralized loans | 468,139 | 422,977 | 242,535 | 8,787 | 1,142,438 |
| Pledged loans | — | 2,440 | 267,717 | 48,849 | 319,006 |
| **Total** | 1,017,345 | 629,283 | 756,098 | 145,510 | 2,548,236 |

| The Group | As at March 31, 2021 | | | | |
|---|---|---|---|---|---|
| | Overdue between 1 and 90 days (inclusive) | Overdue between 90 days and 1 year (inclusive) | Overdue between 1 and 3 years (inclusive) | Overdue for more than 3 years | Total |
| Unsecured loans | 425,051 | 158,192 | 107,766 | 16,029 | 707,038 |
| Guaranteed loans | 224,112 | 58,258 | 194,183 | 73,069 | 549,622 |
| Collateralized loans | 788,081 | 484,393 | 240,253 | 58,190 | 1,570,917 |
| Pledged loans | 2,100 | 2,400 | 20,578 | 294,994 | 320,072 |
| **Total** | 1,439,344 | 703,243 | 562,780 | 442,282 | 3,147,649 |

(e) Loans and advances to customers impaired/at Stage 3

The total amounts of loans and advances to customers impaired/at Stage 3 are set out as follows:

| The Group | As at December 31, | | | As at March 31, |
|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 |
| Corporate loans and advances | 3,005,164 | 2,758,063 | 1,957,422 | 3,052,929 |
| Personal loans and advances | 375,559 | 427,911 | 834,019 | 892,302 |
| **Total** | 3,380,723 | 3,185,974 | 2,791,441 | 3,945,231 |
| **Fair value of collateral** | | | | |
| — Corporate loans and advances | 1,296,927 | 1,234,566 | 627,441 | 633,074 |
| — Personal loans and advances | 174,889 | 189,592 | 423,318 | 441,318 |
| **Total** | 1,471,816 | 1,424,158 | 1,050,759 | 1,074,392 |

The fair value of collateral is determined based on the latest available external valuation prices, adjusted for the current experiences of collateral realization and market conditions.

Concentration of loans and advances to customers impaired/at Stage 3 by geographical regions

| The Group | As at December 31, 2018 | | As at December 31, 2019 | | As at December 31, 2020 | | As at March 31, 2021 | |
|---|---|---|---|---|---|---|---|---|
| | Amount | % | Amount | % | Amount | % | Amount | % |
| Dongguan | 3,074,062 | 90.93% | 2,987,080 | 93.76% | 2,423,087 | 86.80% | 3,434,525 | 87.06% |
| Zhanjiang | — | — | 62,183 | 1.95% | 189,805 | 6.80% | 190,791 | 4.84% |
| Others | 306,661 | 9.07% | 136,711 | 4.29% | 178,549 | 6.40% | 319,915 | 8.11% |
| **Total** | 3,380,723 | 100.00% | 3,185,974 | 100.00% | 2,791,441 | 100.00% | 3,945,231 | 100.01% |

As at December 31, 2018, 2019 and 2020 and March 31, 2021, the Group's loans and advances to customers impaired/at Stage 3 accounted for 2.05%, 0.89%, 1.07% and 1.43% of total loans respectively.

(f) Restructured loans and advances to customers

Restructured loans refer to loans with renegotiated contract terms due to the change of borrower, guarantee or repayment. The Group reaches agreements with these borrowers in consideration of their financial difficulties or other condition. As at December 31, 2018, 2019 and 2020 and March 31, 2021, the Group's balances of restructured loans and advances to customers were RMB421 million, RMB173 million, RMB126 million and RMB134 million respectively.

42.1.7 Foreclosed assets

Foreclosed assets are disposed once they are sold and gains from the sale can be used to decrease the balance of liabilities. Usually the Group does not use recovered foreclosed assets for business activities. As at December 31, 2018, 2019 and 2020 and March 31, 2021, foreclosed assets were listed under other assets.

42.1.8 Debt instrument investments

(a) Debt instrument investments classified by borrower ratings

The credit risks of debt instrument investments are classified mainly based on their external credit ratings.

(1) The exposures of financial investments at amortized cost are analyzed as follows:

| **The Group** | **As at December 31, 2018** | | | |
|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
| **Credit ratings** | | | | |
| AA to AAA | 25,586,143 | — | — | 25,586,143 |
| CCC+ to AA- | — | 515,921 | — | 515,921 |
| CCC and below | — | — | — | — |
| Default | — | — | — | — |
| Unrated(i) | 41,991,648 | — | — | 41,991,648 |
| **Total** | 67,577,791 | 515,921 | — | 68,093,712 |
| Provision for ECL | (104,027) | (10,126) | — | (114,153) |
| **Net book value** | 67,473,764 | 505,795 | — | 67,979,559 |

| The Group | As at December 31, 2019 | | | |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| **Credit ratings** | | | | |
| AA to AAA | 16,259,843 | — | — | 16,259,843 |
| CCC+ to AA- | — | 217,358 | — | 217,358 |
| CCC and below | — | — | — | — |
| Default | — | — | — | — |
| Unrated[(i)] | 70,518,405 | — | — | 70,518,405 |
| **Total** | 86,778,248 | 217,358 | — | 86,995,606 |
| Provision for ECL | (119,916) | (6,112) | — | (126,028) |
| **Net book value** | 86,658,332 | 211,246 | — | 86,869,578 |

| The Group | As at December 31, 2020 | | | |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| **Credit ratings** | | | | |
| AA to AAA | 19,770,183 | — | — | 19,770,183 |
| CCC+ to AA- | — | 181,001 | — | 181,001 |
| CCC and below | — | — | 53,038 | 53,038 |
| Default | — | — | — | — |
| Unrated[(i)] | 91,784,675 | — | — | 91,784,675 |
| **Total** | 111,554,858 | 181,001 | 53,038 | 111,788,897 |
| Provision for ECL | (99,883) | (3,112) | (17,969) | (120,964) |
| **Net book value** | 111,454,975 | 177,889 | 35,069 | 111,667,933 |

| The Group | As at March 31, 2021 | | | |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| **Credit ratings** | | | | |
| AA to AAA | 21,516,029 | 41,112 | — | 21,557,141 |
| CCC+ to AA- | — | 211,687 | — | 211,687 |
| CCC and below | — | — | — | — |
| Default | — | — | — | — |
| Unrated[(i)] | 88,113,170 | — | — | 88,113,170 |
| **Total** | 109,629,199 | 252,799 | — | 109,881,998 |
| Provision for ECL | (110,000) | (1,612) | — | (111,612) |
| **Net book value** | 109,519,199 | 251,187 | — | 109,770,386 |

(2) The exposures of financial investments at fair value through other comprehensive income are analyzed as follows:

| The Group | As at December 31, 2018 | | | |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| **Credit ratings** | | | | |
| AA to AAA | 58,436,466 | — | — | 58,436,466 |
| CCC+ to AA- | — | 2,592,650 | — | 2,592,650 |
| CCC and below | — | — | 72,724 | 72,724 |
| Default | — | — | 3,685 | 3,685 |
| Unrated[(i)] | 24,325,636 | — | — | 24,325,636 |
| **Net book value** | 82,762,102 | 2,592,650 | 76,409 | 85,431,161 |

| The Group | As at December 31, 2019 | | | |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| **Credit ratings** | | | | |
| AA to AAA | 37,679,495 | — | — | 37,679,495 |
| CCC+ to AA- | — | 2,151,711 | — | 2,151,711 |
| CCC and below | — | — | 458,373 | 458,373 |
| Default | — | — | 14,918 | 14,918 |
| Unrated[(i)] | 37,483,239 | — | — | 37,483,239 |
| **Net book value** | 75,162,734 | 2,151,711 | 473,291 | 77,787,736 |

| The Group | As at December 31, 2020 | | | |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| **Credit ratings** | | | | |
| AA to AAA | 19,869,750 | — | — | 19,869,750 |
| CCC+ to AA- | — | 1,165,685 | — | 1,165,685 |
| CCC and below | — | — | 240,630 | 240,630 |
| Default | — | — | 570,520 | 570,520 |
| Unrated[(i)] | 57,530,311 | — | — | 57,530,311 |
| **Net book value** | 77,400,061 | 1,165,685 | 811,150 | 79,376,896 |

| The Group | As at March 31, 2021 | | | |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| **Credit ratings** | | | | |
| AA to AAA | 19,732,750 | — | — | 19,732,750 |
| CCC+ to AA- | — | 932,192 | — | 932,192 |
| CCC and below | — | — | 90,727 | 90,727 |
| Default | — | — | 408,102 | 408,102 |
| Unrated(i) | 62,400,047 | — | — | 62,400,047 |
| **Net book value** | 82,132,797 | 932,192 | 498,829 | 83,563,818 |

(b) Debt instrument investments classified by facility ratings

| The Group | As at December 31, 2018 | | | |
|---|---|---|---|---|
| | Financial assets at fair value through profit or loss | Financial investments at amortized cost | Financial assets designated at fair value through other comprehensive income | Total |
| AA to AAA | 8,906,036 | 19,206,672 | 34,158,638 | 62,271,346 |
| CCC+ to AA- | 340,102 | — | 209,630 | 549,732 |
| CCC and below | 6,337 | — | 27,651 | 33,988 |
| Unrated(i) | 25,722,262 | 48,772,887 | 51,035,242 | 125,530,391 |
| **Total** | 34,974,737 | 67,979,559 | 85,431,161 | 188,385,457 |

| The Group | As at December 31, 2019 | | | |
|---|---|---|---|---|
| | Financial assets at fair value through profit or loss | Financial investments at amortized cost | Financial assets designated at fair value through other comprehensive income | Total |
| AA to AAA | 7,636,377 | 41,067,591 | 26,363,180 | 75,067,148 |
| CCC+ to AA- | 20,709 | — | 132,310 | 153,019 |
| CCC and below | 23,228 | — | 26,706 | 49,934 |
| Unrated(i) | 22,574,532 | 45,801,987 | 51,265,540 | 119,642,059 |
| **Total** | 30,254,846 | 86,869,578 | 77,787,736 | 194,912,160 |

| The Group | As at December 31, 2020 | | | |
|---|---|---|---|---|
| | Financial assets at fair value through profit or loss | Financial investments at amortized cost | Financial assets designated at fair value through other comprehensive income | Total |
| AA to AAA | 4,885,711 | 42,210,336 | 19,065,483 | 66,161,530 |
| CCC+ to AA- | 198,379 | 241,587 | 94,379 | 534,345 |
| CCC and below | 1,444 | — | 92,268 | 93,712 |
| Unrated(i) | 31,016,033 | 69,216,010 | 60,124,766 | 160,356,809 |
| **Total** | 36,101,567 | 111,667,933 | 79,376,896 | 227,146,396 |

| The Group | As at March 31, 2021 | | | |
|---|---|---|---|---|
| | Financial assets at fair value through profit or loss | Financial investments at amortized cost | Financial assets designated at fair value through other comprehensive income | Total |
| AA to AAA | 4,580,852 | 43,015,665 | 18,862,682 | 66,459,199 |
| CCC+ to AA- | 347,020 | 39,919 | 94,566 | 481,505 |
| CCC and below | 1,444 | — | 89,959 | 91,403 |
| Unrated(i) | 32,167,901 | 66,714,802 | 64,516,611 | 163,399,314 |
| **Total** | 37,097,217 | 109,770,386 | 83,563,818 | 230,431,421 |

(i) The Group's unrated debt instrument investments comprise mainly of treasury bonds and local government bonds, financial bonds issued by policy banks, commercial bank bonds, non-bank financial institutions bonds and rights of earnings on credit assets.

### 42.2 Market risk

42.2.1 Overview

Market risk represents the potential loss arising from changes in market rates of interest and foreign exchange, as well as commodity and equity prices. Market risk arises from both the Group's proprietary positions and customer driven transactions, in both cases related to on and off-balance sheet activities.

The Group is primarily exposed to interest rate risk through its lending, fixed-income and funding activities. Interest rate risk is inherent in many of the Group's businesses and this situation is common among banks. It fundamentally arises through mismatches between the maturity and re-pricing dates of interest-earning assets and interest-bearing liabilities. As discussed further below, interest rate risk is actively managed.

Foreign exchange rate risk is the potential loss related to changes in foreign exchange rates affecting the translation of foreign currency denominated monetary assets and liabilities. The risk of loss results from movements in foreign currency exchange rates.

The Group's commodity risk is mainly from the fluctuation in price of gold. The Group considers that the market risk from commodity prices of trade and investment portfolios is not significant.

42.2.2 Market analysis metrics

To enhance the effectiveness of market risk management, as well as the accuracy of determining the levels of regulatory capital required related to market risk, the Group segregates all financial instruments and commodities, both on-and off-balance sheet, into either the trading book or banking book. The trading book is comprised of financial instruments and commodity positions held for trading. Any other financial instruments are included in the banking book.

The Group manages market risk in the trading book through methodologies that include, monitoring and management of established limits, sensitivity analysis, duration analysis, exposure analysis and stress testing. The Group has formulated policies, which are subject to review annually or as circumstances otherwise dictate, to manage market risk. Further, in this regard, the Group's market risk management is focused on movements in domestic and global financial markets, as well as the composition of the trading book and management's trading strategies, within approved limits. Moreover, the Group has implemented more specific policies for financial instruments, closely monitoring the exposure to specific issuers and counterparties, as well as the tenor of individual positions and trading strategies.

Market risk exposure limits are classified as either directive limits or indicative limits, based on the characteristics of the underlying instruments or transactions, including exposure limit monitoring, enforcement of stop-loss limits, and stress testing limits.

The Group is committed to continuous improvement of its market risk exposure limit management. The Group establishes exposure limits reflecting its risk appetite and continuously refines the categorization of market risk exposure limits. Further, it regularly monitors, reports, refines, and implements improvements to the market risk exposure limit process.

42.2.3 Interest rate risk

The interest rate risk existing in the banking book broadly relates to the mismatch of the maturity or re-pricing dates of interest rate-sensitive financial assets and financial liabilities, as well as inconsistencies in the change of the benchmark interest rates on which most domestic interest rate-sensitive financial assets and financial liabilities are based.

The Group closely monitors changes in the macro-economic environment and the monetary policies of the PBOC, enabling it to timely and flexibly adjusts its pricing strategy. The Group establishes comprehensive interest rate risk management policies and protocols and has improved the consistency of interest rate risk measurement, monitoring, analysis and management of interest rate risk across the Group.

The Group regularly measures and analyzes the Group's interest rate risk by conducting gap analysis, sensitivity analysis, scenario analysis and stress testing to manage interest rate risk within established limits.

The tables below summarize the contractual maturity or re-pricing date, whichever is earlier, of the Group's financial assets and liabilities at the end of each reporting period.

| **As at December 31, 2018<br>The Group** | **Within 3 months** | **3 to 12 months** | **1 to 5 years** | **Over 5 years** | **Non-interest bearing** | **Total** |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and balances with central banks | 38,686,306 | — | — | — | 1,610,576 | 40,296,882 |
| Financial assets held under resale agreements and deposits and placements with banks and other financial institutions | 14,377,660 | 655,914 | — | — | — | 15,033,574 |
| Loans and advances to customers | 114,658,406 | 34,729,738 | 6,656,362 | 1,401,155 | — | 157,445,661 |
| Financial investments | | | | | | |
| — Financial assets at fair value through profit or loss | 6,661,675 | 13,639,844 | 3,715,149 | 4,534,570 | 6,423,499 | 34,974,737 |
| — Financial investments at amortized cost | 3,501,823 | 8,335,342 | 53,265,115 | 2,877,279 | — | 67,979,559 |
| — Financial investments at fair value through other comprehensive income | 2,476,893 | 21,295,550 | 55,606,307 | 6,052,411 | 611,943 | 86,043,104 |
| Other financial assets | — | — | — | — | 57,857 | 57,857 |
| **Total financial assets** | 180,362,763 | 78,656,388 | 119,242,933 | 14,865,415 | 8,703,875 | 401,831,374 |
| **Liabilities** | | | | | | |
| Borrowings from central banks | — | 644,513 | — | — | — | 644,513 |
| Financial assets sold under repurchase agreements and deposits and placements from banks and other financial institutions | 38,330,865 | 14,727,546 | 145,967 | — | — | 53,204,378 |
| Financial liabilities at fair value through profit or loss | — | — | — | — | 24,494 | 24,494 |
| Deposits from customers | 175,400,060 | 43,803,823 | 45,560,275 | — | 240,734 | 265,004,892 |
| Debt securities issued | 21,881,115 | 29,690,323 | — | 4,105,287 | — | 55,676,725 |
| Lease liabilities | 27,541 | 77,680 | 273,617 | 121,129 | — | 499,967 |
| Other financial liabilities | — | — | — | — | 460,615 | 460,615 |
| **Total financial liabilities** | 235,639,581 | 88,943,885 | 45,979,859 | 4,226,416 | 725,843 | 375,515,584 |
| **Interest rate gap** | (55,276,818) | (10,287,497) | 73,263,074 | 10,638,999 | 7,978,032 | 26,315,790 |

| As at December 31, 2019<br>The Group | Within 3 months | 3 to 12 months | 1 to 5 years | Over 5 years | Non-interest bearing | Total |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and balances with central banks | 37,101,062 | — | — | — | 2,456,109 | 39,557,171 |
| Financial assets held under resale agreements and deposits and placements with banks and other financial institutions | 16,050,255 | 5,046,561 | 202,847 | — | — | 21,299,663 |
| Loans and advances to customers | 141,451,202 | 35,189,759 | 16,293,514 | 6,036,163 | — | 198,970,638 |
| Financial investments | | | | | | |
| — Financial assets at fair value through profit or loss | 2,542,485 | 10,643,913 | 6,590,780 | 262,401 | 10,215,267 | 30,254,846 |
| — Financial investments at amortized cost | — | 15,565,442 | 66,979,435 | 4,324,701 | — | 86,869,578 |
| — Financial investments at fair value through other comprehensive income | 6,158,919 | 21,654,196 | 43,828,785 | 6,145,836 | 563,149 | 78,350,885 |
| Other financial assets | — | — | — | — | 166,095 | 166,095 |
| **Total financial assets** | 203,303,923 | 88,099,871 | 133,895,361 | 16,769,101 | 13,400,620 | 455,468,876 |
| **Liabilities** | | | | | | |
| Borrowings from central banks | 512,164 | 2,089,000 | — | — | — | 2,601,164 |
| Financial assets sold under repurchase agreements and deposits and placements from banks and other financial institutions | 35,360,649 | 11,012,510 | — | — | — | 46,373,159 |
| Financial liabilities at fair value through profit or loss | — | — | — | — | 132,398 | 132,398 |
| Deposits from customers | 195,694,693 | 51,614,568 | 66,100,269 | — | 807,475 | 314,217,005 |
| Debt securities issued | 24,069,921 | 28,031,673 | 2,057,468 | 4,112,608 | — | 58,271,670 |
| Lease liabilities | 29,068 | 78,472 | 260,082 | 88,761 | — | 456,383 |
| Other financial liabilities | — | — | — | — | 260,731 | 260,731 |
| **Total financial liabilities** | 255,666,495 | 92,826,223 | 68,417,819 | 4,201,369 | 1,200,604 | 422,312,510 |
| **Interest rate gap** | (52,362,572) | (4,726,352) | 65,477,542 | 12,567,732 | 12,200,016 | 33,156,366 |

| As at December 31, 2020<br>The Group | Within 3 months | 3 to 12 months | 1 to 5 years | Over 5 years | Non-interest bearing | Total |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and balances with central banks | 36,144,159 | — | — | — | 2,432,295 | 38,576,454 |
| Financial assets held under resale agreements and deposits and placements with banks and other financial institutions | 18,373,135 | 330,000 | 4,299 | — | — | 18,707,434 |
| Loans and advances to customers | 165,810,611 | 46,734,327 | 21,507,912 | 20,588,912 | — | 254,641,762 |
| Financial investments | | | | | | |
| —Financial assets at fair value through profit or loss | 3,845,320 | 3,924,328 | 5,949,379 | 1,885,663 | 20,496,877 | 36,101,567 |
| —Financial investments at amortized cost | 12,573,744 | 24,030,574 | 60,570,508 | 14,493,107 | — | 111,667,933 |
| —Financial investments at fair value through other comprehensive income | 4,656,457 | 17,750,254 | 33,700,372 | 23,269,813 | 566,705 | 79,943,601 |
| Other financial assets | — | — | — | — | 503,309 | 503,309 |
| **Total financial assets** | 241,403,426 | 92,769,483 | 121,732,470 | 60,237,495 | 23,999,186 | 540,142,060 |
| **Liabilities** | | | | | | |
| Borrowings from central banks | 2,466,730 | 28,186,628 | — | — | — | 30,653,358 |
| Financial assets sold under repurchase agreements and deposits and placements from banks and other financial institutions | 36,098,532 | 7,383,685 | — | — | — | 43,482,217 |
| Financial liabilities at fair value through profit or loss | — | — | — | — | 238,841 | 238,841 |
| Deposits from customers | 235,986,754 | 65,756,425 | 75,631,649 | — | 174,066 | 377,548,894 |
| Debt securities issued | 17,893,380 | 21,400,566 | 6,848,525 | 4,106,766 | — | 50,249,237 |
| Lease liabilities | 31,842 | 85,105 | 248,586 | 85,327 | — | 450,860 |
| Other financial liabilities | — | 13,700 | 1,227,401 | 1,227,401 | 1,133,321 | 3,601,823 |
| **Total financial liabilities** | 292,477,238 | 122,826,109 | 83,956,161 | 5,419,494 | 1,546,228 | 506,225,230 |
| **Interest rate gap** | (51,073,812) | (30,056,626) | 37,776,309 | 54,818,001 | 22,452,958 | 33,916,830 |

| As at March 31, 2021<br>The Group | Within 3 months | 3 to 12 months | 1 to 5 years | Over 5 years | Non-interest bearing | Total |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and balances with central banks | 34,325,950 | — | — | — | 2,629,927 | 36,955,877 |
| Financial assets held under resale agreements and deposits and placements with banks and other financial institutions | 18,607,941 | 731,000 | — | — | — | 19,338,941 |
| Loans and advances to customers | 43,453,571 | 175,946,854 | 25,529,789 | 23,759,669 | — | 268,689,883 |
| Financial investments | | | | | | |
| — Financial assets at fair value through profit or loss | 1,970,056 | 3,931,933 | 6,222,483 | 2,614,243 | 22,358,502 | 37,097,217 |
| — Financial investments at amortized cost | 10,873,556 | 17,198,844 | 66,275,457 | 15,422,529 | — | 109,770,386 |
| — Financial investments at fair value through other comprehensive income | 5,289,027 | 15,721,593 | 38,049,732 | 24,503,466 | 575,204 | 84,139,022 |
| Other financial assets | — | — | — | — | 267,223 | 267,223 |
| **Total financial assets** | 114,520,101 | 213,530,224 | 136,077,461 | 66,299,907 | 25,830,856 | 556,258,549 |
| **Liabilities** | | | | | | |
| Borrowings from central banks | 5,397,753 | 24,472,849 | — | — | — | 29,870,602 |
| Financial assets sold under repurchase agreements and deposits and placements from banks and other financial institutions | 35,425,058 | 10,165,737 | — | — | — | 45,590,795 |
| Financial liabilities at fair value through profit or loss | — | — | — | — | 230,174 | 230,174 |
| Deposits from customers | 233,044,722 | 74,516,431 | 81,865,662 | — | 214,489 | 389,641,304 |
| Debt securities issued | 16,908,675 | 26,350,600 | 7,526,093 | 3,995,533 | — | 54,780,901 |
| Lease liabilities | 32,212 | 82,470 | 245,262 | 73,193 | — | 433,137 |
| Other financial liabilities | — | — | — | — | 203,504 | 203,504 |
| **Total financial liabilities** | 290,808,420 | 135,588,087 | 89,637,017 | 4,068,726 | 648,167 | 520,750,417 |
| **Interest rate gap** | (176,288,319) | 77,942,137 | 46,440,444 | 62,231,181 | 25,182,689 | 35,508,132 |

The following table illustrates the potential impact, of a parallel upward or downward shift of 100 basis points in relevant interest rate curves on the Group's net Interest Income and other comprehensive income for the next twelve months from the reporting date, based on the Group's positions of interest-earning assets and interest-bearing liabilities at the end of each reporting period. This analysis assumes that interest rates of all maturities move by the same amount, and does not reflect the potential impact of unparalleled yield curve movements.

The sensitivity analysis on net interest income is based on reasonably possible changes in interest rates with the assumption that the structure of financial assets and financial liabilities held at the period end remains unchanged, and does not take changes in customer behavior, basis risk or any prepayment options on debt securities into consideration.

The sensitivity analysis on other comprehensive income reflects only the effect of changes in fair value of those financial assets at fair value through other comprehensive income held, whose fair value changes are recorded as an element of other comprehensive income.

| | Expected changes of net profit | | | |
|---|---|---|---|---|
| | As at December 31, | | | As at March 31, |
| | 2018 | 2019 | 2020 | 2021 |
| + 100 basis point parallel move in all yield curves | (391,688) | (356,922) | (419,706) | (937,680) |
| - 100 basis point parallel move in all yield curves | 391,688 | 356,922 | 419,706 | 937,680 |

| | Expected changes of other comprehensive income | | | |
|---|---|---|---|---|
| | As at December 31, | | | As at March 31, |
| | 2018 | 2019 | 2020 | 2021 |
| + 100 basis point parallel move in all yield curves | (1,132,722) | (1,189,014) | (1,927,592) | (2,003,922) |
| - 100 basis point parallel move in all yield curves | 1,185,444 | 1,245,450 | 2,069,720 | 2,090,854 |

The assumptions do not reflect actions that might be taken under the Group's capital and interest rate risk management policy to mitigate changes to the Group's interest rate risk. Therefore the above analysis may differ from the actual situation.

In addition, the presentation of interest rate sensitivity above is for illustration purposes only, showing the potential impact on net interest income and other comprehensive income of the Group under different parallel yield curve movements, relative to their position at period-end.

42.2.4 Foreign exchange risk

Foreign exchange rate risk relates to the mismatch of foreign currency denominated monetary assets and liabilities, and the potential loss related to changes in foreign exchange rates, which largely arises through operational activities.

The Group performs monitoring and sensitivity analysis of foreign exchange rate risk exposure, manages the mismatch of foreign currency denominated assets and liabilities to effectively manage foreign exchange rate risk exposure within acceptable limits.

The Group and the Bank primarily conducts its business activities in RMB, with certain transactions denominated in USD, HKD and, to a lesser extent, other currencies. The composition of all financial assets and liabilities at the end of each reporting period analyzed by currency is as follows:

| **The Group** | **USD (RMB equivalent)** | **HKD (RMB equivalent)** | **Other currencies (RMB equivalent)** |
|---|---|---|---|
| As at December 31, 2018 | | | |
| **Assets** | | | |
| Cash and balances with central banks | 50,378 | 135,105 | — |
| Financial assets held under resale agreements and deposits and placements with banks and other financial institutions | 1,324,564 | 534,103 | 2,935 |
| Loans and advances to customers | 332,151 | 9,822 | 1,485 |
| **Total financial assets** | 1,707,093 | 679,030 | 4,420 |
| **Liabilities** | | | |
| Financial assets sold under repurchase agreements and deposits and placements from banks and other financial institutions | 1,203,785 | — | — |
| Deposits from customers | 436,975 | 680,659 | 4,394 |
| **Total financial liabilities** | 1,640,760 | 680,659 | 4,394 |
| **Net on-balance sheet position** | 66,333 | (1,629) | 26 |
| **Financial guarantees and credit commitments** | 220,303 | — | 1,356 |

| The Group | USD (RMB equivalent) | HKD (RMB equivalent) | Other currencies (RMB equivalent) |
|---|---|---|---|
| As at December 31, 2019 | | | |
| **Assets** | | | |
| Cash and balances with central banks | 50,365 | 116,523 | — |
| Financial assets held under resale agreements and deposits and placements with banks and other financial institutions | 115,972 | 438,788 | 520 |
| Loans and advances to customers | 423,659 | 85,560 | 1,365 |
| **Total financial assets** | 589,996 | 640,871 | 1,885 |
| **Liabilities** | | | |
| Deposits from customers | 531,491 | 657,661 | 10,086 |
| **Net on-balance sheet position** | 58,505 | (16,790) | (8,201) |
| **Financial guarantees and credit commitments** | 156,590 | — | 937 |

| The Group | USD (RMB equivalent) | HKD (RMB equivalent) | Other currencies (RMB equivalent) |
|---|---|---|---|
| As at December 31, 2020 | | | |
| **Assets** | | | |
| Cash and balances with central banks | 58,584 | 104,040 | — |
| Financial assets held under resale agreements and deposits and placements with banks and other financial institutions | 297,617 | 399,822 | 2,101 |
| Loans and advances to customers | 275,281 | 95,113 | — |
| **Total financial assets** | 631,482 | 598,975 | 2,101 |
| **Liabilities** | | | |
| Deposits from customers | 598,305 | 614,464 | 5,764 |
| **Net on-balance sheet position** | 33,177 | (15,489) | (3,663) |
| **Financial guarantees and credit commitments** | 215,937 | — | 2,246 |

| The Group | USD (RMB equivalent) | HKD (RMB equivalent) | Other currencies (RMB equivalent) |
|---|---|---|---|
| As at March 31, 2021 | | | |
| **Assets** | | | |
| Cash and balances with central banks | 68,666 | 102,575 | — |
| Financial assets held under resale agreements and deposits and placements with banks and other financial institutions | 306,175 | 406,332 | 636 |
| Loans and advances to customers | 232,216 | 92,365 | — |
| **Total financial assets** | 607,057 | 601,272 | 636 |
| **Liabilities** | | | |
| Deposits from customers | 601,861 | 592,502 | 6,385 |
| **Net on-balance sheet position** | 5,196 | 8,770 | (5,749) |
| **Financial guarantees and credit commitments** | 234,100 | — | 2,156 |

The table below indicates the potential effect on net profit arising from a 10% appreciation or depreciation of RMB spot and forward foreign exchange rates against USD on the net positions of foreign currency monetary assets and liabilities in the consolidated statement of financial position.

| The Group | As at December 31, | | | As at March 31, |
|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 |
| USD/RMB 10% appreciation | 4,975 | 4,388 | 2,488 | 390 |
| USD/RMB 10% depreciation | (4,975) | (4,388) | (2,488) | (390) |

The effect on net profit and other comprehensive income is calculated based on the assumption that the Group's foreign currency sensitive exposures at the end of each reporting period remain unchanged. The Group mitigates its foreign exchange rate risk through active management of its foreign currency exposures, based on management expectation of future foreign currency exchange rate movements. Such analysis does not take into account the correlation effect of changes in different foreign currencies, nor any further actions that could be taken by management to mitigate the effect of foreign exchange differences. Therefore, the sensitivity analysis above may differ from actual results occurring through changes in foreign exchange rates.

### 42.3 Liquidity risk

42.3.1 Overview

Liquidity risk is the risk that funds will not be available to meet liabilities as they fall due. This may arise from cash flows or maturity mismatches of assets and liabilities.

The Group's Finance Department and Financial Market Department manage its liquidity risk via:

- Optimizing the asset and liability structures;
- Making projections of future cash flows, and evaluating the appropriate liquid asset position;
- Maintaining reasonable liquidity reserve;
- Conducting stress testing regularly.

42.3.2 Analysis of the undiscounted contractual cash flows

The tables below set forth undiscounted contractual cash flows of the Group's and the Bank's financial assets and liabilities by remaining contractual maturities at the end of the reporting period:

| The Group | On demand | Within 1 month | 1 to 3 months | 3 to 12 months | 1 to 5 years | Over 5 years | Undated | Total |
|---|---|---|---|---|---|---|---|---|
| **As at December 31, 2018** | | | | | | | | |
| **Financial assets** | | | | | | | | |
| Cash and balances with central banks | 9,228,981 | — | — | — | — | — | 31,086,226 | 40,315,207 |
| Financial assets held under resale agreements and deposits and placements with banks and other financial institutions | 2,132,404 | 11,026,329 | 1,264,727 | 1,027,902 | — | — | — | 15,451,362 |
| Loans and advances to customers | 3,863,408 | 6,052,289 | 15,680,776 | 44,118,158 | 55,186,047 | 82,047,445 | — | 206,948,123 |
| Financial investments | | | | | | | | |
| — Financial assets at fair value through profit or loss | — | 3,476,393 | 4,834,873 | 17,072,790 | 5,133,331 | 551,667 | 6,423,499 | 37,492,553 |
| — Financial investments at amortized cost | — | 3,374,707 | 638,888 | 10,509,122 | 58,070,596 | 3,213,033 | — | 75,806,346 |
| — Financial investments at fair value through other comprehensive income | 119,356 | 741,141 | 1,626,096 | 21,092,655 | 67,527,773 | 7,188,555 | 611,943 | 98,907,519 |
| Other financial assets | 49,449 | — | — | — | — | — | 8,408 | 57,857 |
| **Total financial assets** | 15,393,598 | 24,670,859 | 24,045,360 | 93,820,627 | 185,917,747 | 93,000,700 | 38,130,076 | 474,978,967 |
| **Financial liabilities** | | | | | | | | |
| Borrowings from central banks | — | — | — | 661,390 | — | — | — | 661,390 |
| Financial assets sold under repurchase agreements and deposits and placements from banks and other financial institutions | 2,314,109 | 26,182,527 | 10,127,009 | 15,126,988 | 183,139 | 2,858 | — | 53,936,630 |
| Financial liabilities at fair value through profit or loss | — | — | — | 19,922 | — | — | 4,572 | 24,494 |
| Deposits from customers | 143,761,723 | 19,022,150 | 19,933,255 | 50,108,850 | 52,329,204 | — | — | 285,155,182 |
| Debt securities issued | — | 4,570,000 | 17,480,000 | 30,490,000 | 800,000 | 4,800,000 | — | 58,140,000 |
| Lease liabilities | — | 10,533 | 19,964 | 85,586 | 309,853 | 146,580 | — | 572,516 |
| Other financial liabilities | 379,334 | 6,773 | 13,547 | 60,961 | — | — | — | 460,615 |
| **Total financial liabilities** | 146,455,166 | 49,791,983 | 47,573,775 | 96,553,697 | 53,622,196 | 4,949,438 | 4,572 | 398,950,827 |
| **Net position** | (131,061,568) | (25,121,124) | (23,528,415) | (2,733,070) | 132,295,551 | 88,051,262 | 38,125,504 | 76,028,140 |

| The Group | On demand | Within 1 month | 1 to 3 months | 3 to 12 months | 1 to 5 years | Over 5 years | Undated | Total |
|---|---|---|---|---|---|---|---|---|
| **As at December 31, 2019** | | | | | | | | |
| **Financial assets** | | | | | | | | |
| Cash and balances with central banks | 11,062,799 | — | — | — | — | — | 28,509,797 | 39,572,596 |
| Financial assets held under resale agreements and deposits and placements with banks and other financial institutions | 6,318,423 | 7,144,298 | 2,683,145 | 5,219,418 | 219,293 | — | — | 21,584,577 |
| Loans and advances to customers | 4,977,907 | 8,137,819 | 17,484,439 | 52,063,500 | 68,643,160 | 114,363,970 | — | 265,670,795 |
| Financial investments | | | | | | | | |
| — Financial assets at fair value through profit or loss | 23,228 | 1,520,383 | 1,157,054 | 11,051,819 | 7,184,058 | 314,692 | 10,215,267 | 31,466,501 |
| — Financial investments at amortized cost | — | — | — | 18,878,557 | 72,900,806 | 4,848,505 | — | 96,627,868 |
| — Financial investments at fair value through other comprehensive income | 106,951 | — | 6,907,590 | 22,400,718 | 50,763,360 | 8,185,125 | 563,149 | 88,926,893 |
| Other financial assets | 153,752 | — | — | — | — | — | 12,343 | 166,095 |
| **Total financial assets** | 22,643,060 | 16,802,500 | 28,232,228 | 109,614,012 | 199,710,677 | 127,712,292 | 39,300,556 | 544,015,325 |
| **Financial liabilities** | | | | | | | | |
| Borrowings from central banks | 2,164 | — | 513,078 | 2,131,631 | — | — | — | 2,646,873 |
| Financial assets sold under repurchase agreements and deposits and placements from banks and other financial institutions | 2,315,104 | 26,558,562 | 6,709,604 | 11,330,130 | — | — | — | 46,913,400 |
| Financial liabilities at fair value through profit or loss | — | — | — | 127,119 | — | — | 6,984 | 134,103 |
| Deposits from customers | 177,016,903 | 10,221,010 | 16,567,936 | 53,149,073 | 67,576,092 | — | — | 324,531,014 |
| Debt securities issued | — | 2,820,000 | 21,540,000 | 28,370,000 | 2,057,468 | 4,112,608 | — | 58,900,076 |
| Lease liabilities | — | 10,797 | 20,779 | 85,775 | 292,790 | 107,951 | — | 518,092 |
| Other financial liabilities | 123,512 | 11,435 | 22,870 | 102,914 | — | — | — | 260,731 |
| **Total financial liabilities** | 179,457,683 | 39,621,804 | 45,374,267 | 95,296,642 | 69,926,350 | 4,220,559 | 6,984 | 433,904,289 |
| **Net position** | (156,814,623) | (22,819,304) | (17,142,039) | 14,317,370 | 129,784,327 | 123,491,733 | 39,293,572 | 110,111,036 |

| The Group | On demand | Within 1 month | 1 to 3 months | 3 to 12 months | 1 to 5 years | Over 5 years | Undated | Total |
|---|---|---|---|---|---|---|---|---|
| **As at December 31, 2020** | | | | | | | | |
| **Financial assets** | | | | | | | | |
| Cash and balances with central banks | 11,359,229 | — | — | — | — | — | 27,232,163 | 38,591,392 |
| Financial assets held under resale agreements and deposits and placements with banks and other financial institutions | 11,008,374 | 6,717,895 | 656,333 | 335,395 | 17,743 | — | — | 18,735,740 |
| Loans and advances to customers | 7,144,433 | 7,992,575 | 23,572,639 | 64,630,903 | 82,170,486 | 153,825,876 | — | 339,336,912 |
| Financial investments | | | | | | | | |
| — Financial assets at fair value through profit or loss | 1,765 | 1,855,334 | 2,005,771 | 4,186,882 | 6,619,712 | 2,144,426 | 20,496,877 | 37,310,767 |
| — Financial investments at amortized cost | — | 4,631,556 | 8,734,197 | 26,263,235 | 67,193,365 | 16,932,228 | — | 123,754,581 |
| — Financial investments at fair value through other comprehensive income | 541,439 | 1,537,016 | 2,154,327 | 18,475,971 | 42,316,681 | 29,215,891 | 566,705 | 94,808,030 |
| Other financial assets | 477,045 | 3,370 | 2,605 | 6,904 | — | — | 13,385 | 503,309 |
| **Total financial assets** | 30,532,285 | 22,737,746 | 37,125,872 | 113,899,290 | 198,317,987 | 202,118,421 | 48,309,130 | 653,040,731 |
| **Financial liabilities** | | | | | | | | |
| Borrowings from central banks | — | 74,892 | 2,397,634 | 28,191,312 | — | — | — | 30,663,838 |
| Financial assets sold under repurchase agreements and deposits and placements from banks and other financial institutions | 1,086,500 | 28,672,847 | 6,438,478 | 7,420,940 | — | — | — | 43,618,765 |
| Financial liabilities at fair value through profit or loss | — | — | 20,552 | 209,373 | — | — | 11,861 | 241,786 |
| Deposits from customers | 193,782,346 | 19,308,610 | 25,674,604 | 66,879,104 | 77,138,555 | — | — | 382,783,219 |
| Debt securities issued | — | 4,990,000 | 13,080,000 | 22,056,300 | 8,165,825 | 4,506,766 | — | 52,798,891 |
| Lease liabilities | — | 11,615 | 22,752 | 92,531 | 283,840 | 102,241 | — | 512,979 |
| Other financial liabilities | 917,632 | 17,974 | 35,949 | 175,466 | 1,227,401 | 1,227,401 | — | 3,601,823 |
| **Total financial liabilities** | 195,786,478 | 53,075,938 | 47,669,969 | 125,025,026 | 86,815,621 | 5,836,408 | 11,861 | 514,221,301 |
| **Net position** | (165,254,193) | (30,338,192) | (10,544,097) | (11,125,736) | 111,502,366 | 196,282,013 | 48,297,269 | 138,819,430 |

| The Group | On demand | Within 1 month | 1 to 3 months | 3 to 12 months | 1 to 5 years | Over 5 years | Undated | Total |
|---|---|---|---|---|---|---|---|---|
| **As at March 31, 2021** | | | | | | | | |
| **Financial assets** | | | | | | | | |
| Cash and balances with central banks | 8,555,814 | — | — | — | — | — | 28,414,801 | 36,970,615 |
| Financial assets held under resale agreements and deposits and placements with banks and other financial institutions | 9,384,475 | 8,591,603 | 642,572 | 740,747 | — | — | — | 19,359,397 |
| Loans and advances to customers | 7,759,427 | 10,457,358 | 20,233,696 | 69,077,654 | 85,177,578 | 167,309,483 | — | 360,015,196 |
| Financial investments | | | | | | | | |
| — Financial assets at fair value through profit or loss | 2,087 | 767,832 | 1,332,043 | 4,126,805 | 6,799,268 | 2,798,154 | 22,387,814 | 38,214,003 |
| — Financial investments at amortized cost | — | 3,325,310 | 8,459,997 | 19,452,416 | 73,768,704 | 18,124,680 | — | 123,131,107 |
| — Financial investments at fair value through other comprehensive income | 372,708 | 1,543,341 | 3,057,467 | 17,534,157 | 45,735,358 | 28,229,333 | 575,204 | 97,047,568 |
| Other financial assets | 243,353 | 1,545 | 4,636 | 6,397 | 311 | — | 10,981 | 267,223 |
| **Total financial assets** | 26,317,864 | 24,686,989 | 33,730,411 | 110,938,176 | 211,481,219 | 216,461,650 | 51,388,800 | 675,005,109 |
| **Financial liabilities** | | | | | | | | |
| Borrowings from central banks | — | 2,487,631 | 3,106,989 | 24,713,422 | — | — | — | 30,308,042 |
| Financial assets sold under repurchase agreements and deposits and placements from banks and other financial institutions | 1,848,410 | 26,811,154 | 6,885,813 | 10,287,274 | — | — | — | 45,832,651 |
| Financial liabilities at fair value through profit or loss | — | — | — | 214,714 | — | — | 19,058 | 233,772 |
| Deposits from customers | 191,022,451 | 23,152,443 | 21,666,836 | 75,826,959 | 83,350,373 | — | — | 395,019,062 |
| Debt securities issued | — | 3,000,000 | 14,350,000 | 26,804,020 | 8,818,293 | 4,395,533 | — | 57,367,846 |
| Lease liabilities | — | 11,689 | 22,891 | 89,644 | 276,051 | 91,576 | — | 491,851 |
| Other financial liabilities | 89,477 | 9,502 | 19,007 | 85,518 | — | — | — | 203,504 |
| **Total financial liabilities** | 192,960,338 | 55,472,419 | 46,051,536 | 138,021,551 | 92,444,717 | 4,487,109 | 19,058 | 529,456,728 |
| **Net position** | (166,642,474) | (30,785,430) | (12,321,125) | (27,083,375) | 119,036,502 | 211,974,541 | 51,369,742 | 145,548,381 |

42.3.3 Analysis of the remaining contractual maturity of financial assets and financial liabilities

The table below summarizes the maturity analysis of the carrying amounts of the Group's and the Bank's financial assets and liabilities by remaining contractual maturities at the end of the reporting period:

| The Group | On demand | Within 1 month | Within 3 months | 3 to 12 months | 1 to 5 years | Over 5 years | Undated | Total |
|---|---|---|---|---|---|---|---|---|
| **As at December 31, 2018** | | | | | | | | |
| **Financial assets** | | | | | | | | |
| Cash and balances with central banks | 9,227,701 | — | — | — | — | — | 31,069,181 | 40,296,882 |
| Financial assets held under resale agreements and deposits and placements with banks and other financial institutions | 2,132,402 | 10,997,919 | 1,251,900 | 651,353 | — | — | — | 15,033,574 |
| Loans and advances to customers | 3,058,126 | 5,978,046 | 15,597,810 | 41,826,147 | 44,975,776 | 46,009,756 | — | 157,445,661 |
| Financial investments | | | | | | | | |
| — Financial assets at fair value through profit or loss | — | 3,376,708 | 4,426,656 | 15,912,146 | 4,630,069 | 205,659 | 6,423,499 | 34,974,737 |
| — Financial investments at amortized cost | — | 3,107,833 | 393,990 | 8,335,342 | 53,265,115 | 2,877,279 | — | 67,979,559 |
| — Financial investments at fair value through other comprehensive income | 119,356 | 440,842 | 1,017,309 | 17,869,387 | 59,553,269 | 6,430,998 | 611,943 | 86,043,104 |
| Other financial assets | 49,449 | — | — | — | — | — | 8,408 | 57,857 |
| Total financial assets | 14,587,034 | 23,901,348 | 22,687,665 | 84,594,375 | 162,424,229 | 55,523,692 | 38,113,031 | 401,831,374 |
| **Financial liabilities** | | | | | | | | |
| Borrowings from central banks | — | — | — | 644,513 | — | — | — | 644,513 |
| Financial assets sold under repurchase agreements and deposits and placements from banks and other financial institutions | 2,314,109 | 26,037,345 | 9,979,410 | 14,727,546 | 145,968 | — | — | 53,204,378 |
| Financial liabilities at fair value through profit or loss | — | — | — | 19,922 | — | — | 4,572 | 24,494 |
| Deposits from customers | 143,759,365 | 15,249,343 | 16,779,298 | 43,049,585 | 46,167,301 | — | — | 265,004,892 |
| Debt securities issued | — | 4,564,166 | 17,316,948 | 29,690,324 | — | 4,105,287 | — | 55,676,725 |
| Lease liabilities | — | 9,354 | 18,187 | 77,680 | 273,617 | 121,129 | — | 499,967 |
| Other financial liabilities | 379,334 | 6,773 | 13,547 | 60,961 | — | — | — | 460,615 |
| Total financial liabilities | 146,452,808 | 45,866,981 | 44,107,390 | 88,270,531 | 46,586,886 | 4,226,416 | 4,572 | 375,515,584 |
| **Net position** | (131,865,774) | (21,965,633) | (21,419,725) | (3,676,156) | 115,837,343 | 51,297,276 | 38,108,459 | 26,315,790 |

| The Group | On demand | Within 1 month | Within 3 months | 3 to 12 months | 1 to 5 years | Over 5 years | Undated | Total |
|---|---|---|---|---|---|---|---|---|
| **As at December 31, 2019** | | | | | | | | |
| **Financial assets** | | | | | | | | |
| Cash and balances with central banks | 11,059,948 | — | — | — | — | — | 28,497,223 | 39,557,171 |
| Financial assets held under resale agreements and deposits and placements with banks and other financial institutions | 6,318,421 | 7,131,643 | 2,600,191 | 5,046,561 | 202,847 | — | — | 21,299,663 |
| Loans and advances to customers | 2,820,961 | 7,978,652 | 16,956,237 | 49,422,195 | 59,468,165 | 62,324,428 | — | 198,970,638 |
| Financial investments | | | | | | | | |
| — Financial assets at fair value through profit or loss | 23,228 | 1,446,535 | 1,072,722 | 10,551,786 | 6,682,907 | 262,401 | 10,215,267 | 30,254,846 |
| — Financial investments at amortized cost | — | — | — | 15,515,373 | 67,029,504 | 4,324,701 | — | 86,869,578 |
| — Financial investments at fair value through other comprehensive income | 106,927 | — | 6,004,798 | 20,037,034 | 45,104,619 | 6,534,358 | 563,149 | 78,350,885 |
| Other financial assets | 153,752 | — | — | — | — | — | 12,343 | 166,095 |
| Total financial assets | 20,483,237 | 16,556,830 | 26,633,948 | 100,572,949 | 178,488,042 | 73,445,888 | 39,287,982 | 455,468,876 |
| **Financial liabilities** | | | | | | | | |
| Borrowings from central banks | 2,164 | — | 510,000 | 2,089,000 | — | — | — | 2,601,164 |
| Financial assets sold under repurchase agreements and deposits and placements from banks and other financial institutions | 2,305,397 | 26,436,560 | 6,618,692 | 11,012,510 | — | — | — | 46,373,159 |
| Financial liabilities at fair value through profit or loss | — | — | — | 125,414 | — | — | 6,984 | 132,398 |
| Deposits from customers | 172,213,515 | 8,486,439 | 15,786,005 | 51,621,496 | 66,109,550 | — | — | 314,217,005 |
| Debt securities issued | — | 2,786,489 | 21,283,432 | 28,031,673 | 2,057,468 | 4,112,608 | — | 58,271,670 |
| Lease liabilities | — | 9,948 | 19,120 | 78,472 | 260,082 | 88,761 | — | 456,383 |
| Other financial liabilities | 123,512 | 11,435 | 22,870 | 102,914 | — | — | — | 260,731 |
| Total financial liabilities | 174,644,588 | 37,730,871 | 44,240,119 | 93,061,479 | 68,427,100 | 4,201,369 | 6,984 | 422,312,510 |
| **Net position** | (154,161,351) | (21,174,041) | (17,606,171) | 7,511,470 | 110,060,942 | 69,244,519 | 39,280,998 | 33,156,366 |

| The Group | On demand | Within 1 month | Within 3 months | 3 to 12 months | 1 to 5 years | Over 5 years | Undated | Total |
|---|---|---|---|---|---|---|---|---|
| **As at December 31, 2020** | | | | | | | | |
| **Financial assets** | | | | | | | | |
| Cash and balances with central banks | 11,356,302 | — | — | — | — | — | 27,220,152 | 38,576,454 |
| Financial assets held under resale agreements and deposits and placements with banks and other financial institutions | 11,008,374 | 6,711,348 | 653,413 | 330,000 | 4,299 | — | — | 18,707,434 |
| Loans and advances to customers | 2,222,721 | 7,727,970 | 23,471,247 | 63,124,912 | 73,182,539 | 84,912,373 | — | 254,641,762 |
| Financial investments | | | | | | | | |
| — Financial assets at fair value through profit or loss | 1,444 | 1,762,028 | 1,955,158 | 3,903,333 | 6,098,508 | 1,884,219 | 20,496,877 | 36,101,567 |
| — Financial investments at amortized cost | — | 4,311,171 | 8,262,573 | 23,461,043 | 61,093,141 | 14,540,005 | — | 111,667,933 |
| — Financial investments at fair value through other comprehensive income | 541,439 | 1,160,273 | 1,808,776 | 16,263,518 | 36,048,754 | 23,554,136 | 566,705 | 79,943,601 |
| Other financial assets | 477,045 | 3,370 | 2,605 | 6,904 | — | — | 13,385 | 503,309 |
| Total financial assets | 25,607,325 | 21,676,160 | 36,153,772 | 107,089,710 | 176,427,241 | 124,890,733 | 48,297,119 | 540,142,060 |
| **Financial liabilities** | | | | | | | | |
| Borrowings from central banks | — | 72,855 | 2,393,875 | 28,186,628 | — | — | — | 30,653,358 |
| Financial assets sold under repurchase agreements and deposits and placements from banks and other financial institutions | 1,086,500 | 28,614,284 | 6,397,748 | 7,383,685 | — | — | — | 43,482,217 |
| Financial liabilities at fair value through profit or loss | — | — | 20,280 | 206,700 | — | — | 11,861 | 238,841 |
| Deposits from customers | 191,635,732 | 19,059,426 | 25,284,501 | 65,724,817 | 75,844,418 | — | — | 377,548,894 |
| Debt securities issued | — | 4,982,463 | 13,010,917 | 21,300,566 | 6,848,525 | 4,106,766 | — | 50,249,237 |
| Lease liabilities | — | 10,768 | 21,074 | 85,105 | 248,586 | 85,327 | — | 450,860 |
| Other financial liabilities | 917,632 | 17,974 | 35,949 | 175,466 | 1,227,401 | 1,227,401 | — | 3,601,823 |
| Total financial liabilities | 193,639,864 | 52,757,770 | 47,164,344 | 123,062,967 | 84,168,930 | 5,419,494 | 11,861 | 506,225,230 |
| **Net position** | (168,032,539) | (31,081,610) | (11,010,572) | (15,973,257) | 92,258,311 | 119,471,239 | 48,285,258 | 33,916,830 |

| The Group | On demand | Within 1 month | Within 3 months | 3 to 12 months | 1 to 5 years | Over 5 years | Undated | Total |
|---|---|---|---|---|---|---|---|---|
| **As at March 31, 2021** | | | | | | | | |
| **Financial assets** | | | | | | | | |
| Cash and balances with central banks | 8,553,609 | — | — | — | — | — | 28,402,268 | 36,955,877 |
| Financial assets held under resale agreements and deposits and placements with banks and other financial institutions | 9,384,474 | 8,586,467 | 637,000 | 731,000 | — | — | — | 19,338,941 |
| Loans and advances to customers | 2,671,300 | 10,083,155 | 19,877,597 | 66,912,757 | 78,459,447 | 90,685,627 | — | 268,689,883 |
| Financial investments | | | | | | | | |
| — Financial assets at fair value through profit or loss | 1,444 | 735,877 | 1,279,957 | 3,842,728 | 6,264,466 | 2,584,931 | 22,387,814 | 37,097,217 |
| — Financial investments at amortized cost | — | 2,928,600 | 7,871,280 | 16,671,813 | 66,828,587 | 15,470,106 | — | 109,770,386 |
| — Financial investments at fair value through other comprehensive income | 372,708 | 1,310,573 | 2,734,716 | 15,032,051 | 39,337,923 | 24,775,847 | 575,204 | 84,139,022 |
| Other financial assets | 243,353 | 1,545 | 4,636 | 6,397 | 311 | — | 10,981 | 267,223 |
| Total financial assets | 21,226,888 | 23,646,217 | 32,405,186 | 103,196,746 | 190,890,734 | 133,516,511 | 51,376,267 | 556,258,549 |
| **Financial liabilities** | | | | | | | | |
| Borrowings from central banks | — | 2,419,025 | 2,978,728 | 24,472,849 | — | — | — | 29,870,602 |
| Financial assets sold under repurchase agreements and deposits and placements from banks and other financial institutions | 1,848,410 | 26,754,169 | 6,822,479 | 10,165,737 | — | — | — | 45,590,795 |
| Financial liabilities at fair value through profit or loss | — | — | — | 211,116 | — | — | 19,058 | 230,174 |
| Deposits from customers | 189,045,681 | 22,876,795 | 21,286,655 | 74,516,440 | 81,915,733 | — | — | 389,641,304 |
| Debt securities issued | — | 2,953,079 | 13,955,596 | 26,350,600 | 7,526,093 | 3,995,533 | — | 54,780,901 |
| Lease liabilities | — | 10,883 | 21,329 | 82,470 | 245,262 | 73,193 | — | 433,137 |
| Other financial liabilities | 89,477 | 9,502 | 19,007 | 85,518 | — | — | — | 203,504 |
| Total financial liabilities | 190,983,568 | 55,023,453 | 45,083,794 | 135,884,730 | 89,687,088 | 4,068,726 | 19,058 | 520,750,417 |
| **Net position** | (169,756,680) | (31,377,236) | (12,678,608) | (32,687,984) | 101,203,646 | 129,447,785 | 51,357,209 | 35,508,132 |

42.3.4 Off-balance sheet items

The tables below summarize the amounts of credit commitments by remaining maturity. Financial guarantees are also included below at notional amounts and based on the earliest contractual maturity date.

**The Group**

| As at December 31, 2018 | Within 1 year | 1 to 5 years | Over 5 years | Total |
|---|---|---|---|---|
| Bank acceptances | 1,484,923 | — | — | 1,484,923 |
| Letters of credit | 227,881 | — | — | 227,881 |
| Guarantees | 286,764 | 86,174 | 2,649 | 375,587 |
| Unused limit of credit cards | 7,771,380 | — | — | 7,771,380 |
| **Total** | 9,770,948 | 86,174 | 2,649 | 9,859,771 |

| As at December 31, 2019 | Within 1 year | 1 to 5 years | Over 5 years | Total |
|---|---|---|---|---|
| Bank acceptances | 1,226,593 | — | — | 1,226,593 |
| Letters of credit | 204,506 | — | — | 204,506 |
| Guarantees | 396,725 | 203,996 | 29,616 | 630,337 |
| Unused limit of credit cards | 9,036,803 | — | — | 9,036,803 |
| **Total** | 10,864,627 | 203,996 | 29,616 | 11,098,239 |

| As at December 31, 2020 | Within 1 year | 1 to 5 years | Over 5 years | Total |
|---|---|---|---|---|
| Bank acceptances | 1,580,695 | — | — | 1,580,695 |
| Letters of credit | 245,179 | — | — | 245,179 |
| Guarantees | 1,206,925 | 16,049 | — | 1,222,974 |
| Unused limit of credit cards | 9,655,154 | — | — | 9,655,154 |
| **Total** | 12,687,953 | 16,049 | — | 12,704,002 |

| As at March 31, 2021 | Within 1 year | 1 to 5 years | Over 5 years | Total |
|---|---|---|---|---|
| Bank acceptances | 1,673,832 | — | — | 1,673,832 |
| Letters of credit | 274,123 | — | — | 274,123 |
| Guarantees | 850,764 | 332,922 | 23,989 | 1,207,675 |
| Unused limit of credit cards | 9,968,059 | — | — | 9,968,059 |
| **Total** | 12,766,778 | 332,922 | 23,989 | 13,123,689 |

**42.4 Fair value of financial assets and liabilities**

(a) Fair value hierarchy

The Group classifies financial assets and financial liabilities into the following three levels based on the extent to which inputs to valuation techniques used to measure fair value of the financial assets and financial liabilities are observable.

Level 1: fair value measurements are those derived from quoted prices (unadjusted) in an active market for identical assets or liabilities;

Level 2: fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and

Level 3: fair value measurements are not based on observable market data.

(b) Financial instruments not measured at fair value

The tables below summarize the carrying amounts and fair values of financial assets and liabilities not measured at fair value. Financial assets and liabilities with similar carrying amounts and fair values, such as balances with central banks, financial assets held under resale agreements and deposits and placements with banks and other financial institutions, loans and advances to customers, borrowings from central banks, due to customers, financial assets sold under repurchase agreements and deposits and placements from banks and other financial institutions, and certificates of interbank deposit, are not included.

| **The Group** | **As at December 31, 2018** | | | | |
|---|---|---|---|---|---|
| | | | **Including:** | | |
| | **Carrying amount** | **Fair value** | **Level 1** | **Level 2** | **Level 3** |
| **Financial assets** | | | | | |
| Financial investments at amortized cost | 67,979,559 | 67,872,284 | — | 61,474,869 | 6,397,415 |
| **Financial liabilities** | | | | | |
| Bonds issued | 3,994,054 | 4,155,176 | — | 4,155,176 | — |

| **The Group** | **As at December 31, 2019** | | | | |
|---|---|---|---|---|---|
| | | | **Including:** | | |
| | **Carrying amount** | **Fair value** | **Level 1** | **Level 2** | **Level 3** |
| **Financial assets** | | | | | |
| Financial investments at amortized cost | 86,869,578 | 87,784,411 | — | 83,870,144 | 3,914,267 |
| **Financial liabilities** | | | | | |
| Bonds issued | 5,993,367 | 6,107,028 | — | 6,107,028 | — |

| The Group | As at December 31, 2020 | | | | |
|---|---|---|---|---|---|
| | | | Including: | | |
| | Carrying amount | Fair value | Level 1 | Level 2 | Level 3 |
| **Financial assets** | | | | | |
| Financial investments at amortized cost | 113,205,711 | 111,181,020 | — | 110,131,813 | 1,049,207 |
| **Financial liabilities** | | | | | |
| Bonds issued | 50,249,237 | 50,251,395 | — | 50,251,395 | — |

| The Group | As at March 31, 2021 | | | | |
|---|---|---|---|---|---|
| | | | Including: | | |
| | Carrying amount | Fair value | Level 1 | Level 2 | Level 3 |
| **Financial assets** | | | | | |
| Financial investments at amortized cost | 109,770,386 | 110,032,516 | — | 109,256,089 | 776,427 |
| **Financial liabilities** | | | | | |
| Bonds issued | 54,780,901 | 54,806,794 | — | 54,806,794 | — |

(c) Financial instruments measured at fair value

| The Group | As at December 31, 2018 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| **Financial assets** | | | | |
| Loans and advances to customers at fair value through other comprehensive income | — | — | 19,183,708 | 19,183,708 |
| Financial assets at fair value through profit or loss | | | | |
| — Debt securities | — | 24,275,723 | — | 24,275,723 |
| — Fund investments | 6,423,499 | — | — | 6,423,499 |
| — Rights to earnings on credit assets | — | — | 4,245,486 | 4,245,486 |
| — Others | — | — | 30,029 | 30,029 |
| Financial investments at fair value through other comprehensive income | | | | |
| — Debt securities | — | 83,782,712 | 76,409 | 83,859,121 |
| — Direct financing instruments for WMPs | — | — | 632,949 | 632,949 |
| — Rights to earnings on credit assets | — | — | 939,091 | 939,091 |
| — Unlisted equity | — | — | 611,943 | 611,943 |
| Total | 6,423,499 | 108,058,435 | 25,719,615 | 140,201,549 |
| **Financial liabilities** | | | | |
| Financial liabilities at fair value through profit or loss | — | 24,494 | — | 24,494 |

| The Group | As at December 31, 2019 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| **Financial assets** | | | | |
| Loans and advances to customers at fair value through other comprehensive income | — | — | 17,968,481 | 17,968,481 |
| Financial assets at fair value through profit or loss | | | | |
| — Debt securities | — | 16,879,943 | — | 16,879,943 |
| — Fund investments | 10,215,267 | — | — | 10,215,267 |
| — Rights to earnings on credit assets | — | — | 3,130,299 | 3,130,299 |
| — Others | — | — | 29,337 | 29,337 |
| Financial investments at fair value through other comprehensive income | | | | |
| — Debt securities | — | 76,192,119 | 381,121 | 76,573,240 |
| — Direct financing instruments for WMPs | — | — | 612,927 | 612,927 |
| — Rights to earnings on credit assets | — | — | 601,569 | 601,569 |
| — Unlisted equity | — | — | 563,149 | 563,149 |
| Total | 10,215,267 | 93,072,062 | 23,286,883 | 126,574,212 |
| **Financial liabilities** | | | | |
| Financial liabilities at fair value through profit or loss | — | 132,398 | — | 132,398 |

| The Group | As at December 31, 2020 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| **Financial assets** | | | | |
| Loans and advances to customers at fair value through other comprehensive income | — | — | 27,817,116 | 27,817,116 |
| Financial assets at fair value through profit or loss | | | | |
| — Debt securities | — | 12,142,543 | — | 12,142,543 |
| — Fund investments | 20,496,877 | — | — | 20,496,877 |
| — Rights to earnings on credit assets | — | — | 3,434,843 | 3,434,843 |
| — Others | — | — | 27,304 | 27,304 |
| Financial investments at fair value through other comprehensive income | | | | |
| — Debt securities | — | 78,339,683 | 364,975 | 78,704,658 |
| — Direct financing instruments for WMPs | — | — | 226,063 | 226,063 |
| — Rights to earnings on credit assets | — | — | 446,175 | 446,175 |
| — Unlisted equity | — | — | 566,705 | 566,705 |
| Total | 20,496,877 | 90,482,226 | 32,883,181 | 143,862,284 |
| **Financial liabilities** | | | | |
| Financial liabilities at fair value through profit or loss | — | 238,841 | — | 238,841 |

| The Group | As at March 31, 2021 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| **Financial assets** | | | | |
| Loans and advances to customers at fair value through other comprehensive income | — | — | 27,383,861 | 27,383,861 |
| Financial assets at fair value through profit or loss | | | | |
| — Debt securities | — | 11,275,725 | — | 11,275,725 |
| — Fund investments | 22,358,502 | — | — | 22,358,502 |
| — Rights to earnings on credit assets | — | — | 3,435,058 | 3,435,058 |
| — Others | — | — | 27,932 | 27,932 |
| Financial investments at fair value through other comprehensive income | | | | |
| — Debt securities | — | 82,886,602 | 181,182 | 83,067,784 |
| — Direct financing instruments for WMPs | — | — | 223,443 | 223,443 |
| — Rights to earnings on credit assets | — | — | 272,591 | 272,591 |
| — Unlisted equity | — | — | 575,204 | 575,204 |
| Total | 22,358,502 | 94,162,327 | 32,099,271 | 148,620,100 |
| **Financial liabilities** | | | | |
| Financial liabilities at fair value through profit or loss | — | 230,174 | — | 230,174 |

The fair values of financial assets and liabilities are determined as follows:

- If traded in active markets, fair values of financial assets and financial liabilities with standard terms and conditions are determined with reference to quoted market bid prices and ask prices, respectively;
- If not traded in active markets, fair values of financial assets and financial liabilities are determined by using valuation techniques. These valuation techniques include the use of recent transaction prices of the same or similar instruments, discounted cash flow analysis and generally accepted pricing models.

The Group has established an independent valuation process for financial assets and liabilities. Financial Market Department and Investment Banking and Wealth Management Department are responsible for carrying out the valuation of financial assets and financial liabilities. Valuation methods, parameters, assumptions and results are independently verified by the Department of Comprehensive Risk Management and Compliance; valuation results are obtained following the valuation process and accounted for in accordance with the accounting rules by the Operation Management Department; information on financial assets and liabilities for disclosure purposes is prepared by the Financial Accounting Department based on the independently reviewed valuation results. Valuation policies and procedures for various kinds of financial instruments are approved by the Group's Risk Management Committee. Any changes in valuation policies and procedures are required to be submitted to the Risk Management Committee for approval before being put into practice. For the years ended December 31, 2018, 2019 and 2020 and the three months ended March 31, 2021, there were no significant transfers between the fair value levels.

Information about the Level 3 fair value measurement using material unobservable inputs is as follows:

| The Group | As at December 31, 2018 | | |
|---|---|---|---|
| | Fair value | Valuation technique | Unobservable inputs Item |
| Loans and advances to customers at fair value through other comprehensive income | 19,183,708 | Discounted cash flow | Risk-adjusted discount rate cash flow |
| Financial assets at fair value through profit or loss | | | |
| — Rights to earnings on credit assets | 4,245,486 | Discounted cash flow | Risk-adjusted discount rate cash flow |
| — Others | 30,029 | Discounted cash flow | Risk-adjusted discount rate cash flow |
| Financial investments at fair value through other comprehensive income | | | |
| — Debt securities | 76,409 | Discounted cash flow | Risk-adjusted discount rate cash flow |
| — Direct financing instruments for WMPs | 632,949 | Discounted cash flow | Risk-adjusted discount rate cash flow |
| — Rights to earnings on credit assets | 939,091 | Discounted cash flow | Risk-adjusted discount rate cash flow |
| — Unlisted equity investments | 611,943 | Market approach | Price to book ratio (P/B) Haircuts for low liquidity |

| The Group | As at December 31, 2019 | | |
|---|---|---|---|
| | Fair value | Valuation technique | Unobservable inputs Item |
| Loans and advances to customers at fair value through other comprehensive income | 17,968,481 | Discounted cash flow | Risk-adjusted discount rate cash flow |
| Financial assets at fair value through profit or loss | | | |
| — Rights to earnings on credit assets | 3,130,299 | Discounted cash flow | Risk-adjusted discount rate cash flow |
| — Others | 29,337 | Discounted cash flow | Risk-adjusted discount rate cash flow |
| Financial investments at fair value through other comprehensive income | | | |
| — Debt securities | 381,121 | Discounted cash flow | Risk-adjusted discount rate cash flow |
| — Direct financing instruments for WMPs | 612,927 | Discounted cash flow | Risk-adjusted discount rate cash flow |
| — Rights to earnings on credit assets | 601,569 | Discounted cash flow | Risk-adjusted discount rate cash flow |
| — Unlisted equity investments | 563,149 | Market approach | Price to book ratio (P/B) Haircuts for low liquidity |

| **The Group** | **As at December 31, 2020** | | |
|---|---|---|---|
| | | **Valuation** | **Unobservable inputs** |
| | **Fair value** | **technique** | **Item** |
| Loans and advances to customers at fair value through other comprehensive income | 27,817,116 | Discounted cash flow | Risk-adjusted discount rate cash flow |
| Financial assets at fair value through profit or loss | | | |
| — Rights to earnings on credit assets | 3,434,843 | Discounted cash flow | Risk-adjusted discount rate cash flow |
| — Others | 27,304 | Discounted cash flow | Risk-adjusted discount rate cash flow |
| Financial investments at fair value through other comprehensive income | | | |
| — Debt securities | 364,975 | Discounted cash flow | Risk-adjusted discount rate cash flow |
| — Direct financing instruments for WMPs | 226,063 | Discounted cash flow | Risk-adjusted discount rate cash flow |
| — Rights to earnings on credit assets | 446,175 | Discounted cash flow | Risk-adjusted discount rate cash flow |
| — Unlisted equity investments | 566,705 | Market approach | Price to book ratio (P/B) Haircuts for low liquidity |

| **The Group** | **As at March 31, 2021** | | |
|---|---|---|---|
| | | **Valuation** | **Unobservable inputs** |
| | **Fair value** | **technique** | **Item** |
| Loans and advances to customers at fair value through other comprehensive income | 27,383,861 | Discounted cash flow | Risk-adjusted discount rate cash flow |
| Financial assets at fair value through profit or loss | | | |
| — Rights to earnings on credit assets | 3,435,058 | Discounted cash flow | Risk-adjusted discount rate cash flow |
| — Others | 27,932 | Discounted cash flow | Risk-adjusted discount rate cash flow |
| Financial investments at fair value through other comprehensive income | | | |
| — Debt securities | 181,182 | Discounted cash flow | Risk-adjusted discount rate cash flow |
| — Direct financing instruments for WMPs | 223,443 | Discounted cash flow | Risk-adjusted discount rate cash flow |
| — Rights to earnings on credit assets | 272,591 | Discounted cash flow | Risk-adjusted discount rate cash flow |
| — Unlisted equity investments | 575,204 | Market approach | Price to book ratio (P/B) Haircuts for low liquidity |

The sensitivity of the fair value on changes in unobservable inputs for Level 3 financial instruments is measured at fair value on an ongoing basis.

The fair value of financial instruments is, in certain circumstances, measured using valuation models which incorporate assumptions that are not supported by prices from observable current market transactions in the same instrument and are not based on observable market data. The following table shows the sensitivity of fair value due to parallel movement of plus or minus 1 percent of change in fair value to reasonably possible alternative assumptions.

| **The Group** | **As at December 31, 2018** | | | |
|---|---|---|---|---|
| | **Effect on net profit** | | **Effect on revaluation reserve** | |
| | **Favorable** | **(Unfavorable)** | **Favorable** | **(Unfavorable)** |
| Loans and advances to customers at fair value through other comprehensive income | — | — | 193,956 | (193,914) |
| Financial assets at fair value through profit or loss | | | | |
| — Rights to earnings on credit assets | 43,850 | (43,821) | — | — |
| — Others | 341 | (341) | — | — |
| Financial investments at fair value through other comprehensive income | | | | |
| — Debt securities | — | — | 832 | (832) |
| — Direct financing instruments for WMPs | — | — | 6,690 | (6,682) |
| — Rights to earnings on credit assets | — | — | 9,966 | (9,954) |
| —Unlisted equity investments | — | — | 10,068 | (9,967) |

| **The Group** | **As at December 31, 2019** | | | |
|---|---|---|---|---|
| | **Effect on net profit** | | **Effect on revaluation reserve** | |
| | **Favorable** | **(Unfavorable)** | **Favorable** | **(Unfavorable)** |
| Loans and advances to customers at fair value through other comprehensive income | — | — | 158,291 | (158,266) |
| Financial assets at fair value through profit or loss | | | | |
| — Rights to earnings on credit assets | 31,808 | (31,796) | — | — |
| — Others | 361 | (361) | — | — |
| Financial investments at fair value through other comprehensive income | | | | |
| — Debt securities | — | — | 3,729 | (3,720) |
| — Direct financing instruments for WMPs | — | — | 6,343 | (6,339) |
| — Rights to earnings on credit assets | — | — | 3,914 | (3,911) |
| —Unlisted equity investments | — | — | 10,053 | (9,953) |

| The Group | As at December 31, 2020 | | | |
|---|---|---|---|---|
| | Effect on net profit | | Effect on revaluation reserve | |
| | Favorable | (Unfavorable) | Favorable | (Unfavorable) |
| Loans and advances to customers at fair value through other comprehensive income | — | — | 224,399 | (224,395) |
| Financial assets at fair value through profit or loss | | | | |
| — Rights to earnings on credit assets | 44,511 | (44,442) | — | — |
| — Others | 336 | (336) | — | — |
| Financial investments at fair value through other comprehensive income | | | | |
| — Debt securities | — | — | 3,569 | (3,549) |
| — Direct financing instruments for WMPs | — | — | 2,261 | (2,261) |
| — Rights to earnings on credit assets | — | — | 4,953 | (4,942) |
| —Unlisted equity investments | — | — | 10,104 | (10,004) |

| The Group | As at March 31, 2021 | | | |
|---|---|---|---|---|
| | Effect on net profit | | Effect on revaluation reserve | |
| | Favorable | (Unfavorable) | Favorable | (Unfavorable) |
| Loans and advances to customers at fair value through other comprehensive income | — | — | 204,358 | (208,204) |
| Financial assets at fair value through profit or loss | | | | |
| — Rights to earnings on credit assets | 34,139 | (34,135) | — | — |
| — Others | 1,110 | (1,099) | — | — |
| Financial investments at fair value through other comprehensive income | | | | |
| — Debt securities | — | — | 2,232 | (2,232) |
| — Direct financing instruments for WMPs | — | — | 2,285 | (2,284) |
| — Rights to earnings on credit assets | — | — | 2,658 | (2,659) |
| —Unlisted equity investments | — | — | 10,116 | (10,016) |

The movement of Level 3 fair value measurements is as follows:

| The Group | January 1, 2018 | Transfer into Level 3 | Purchases, sales and settlements | | Total gains or losses | | December 31, 2018 | Unrealized gains or losses included in profit or loss for assets and liabilities held at the end of the year |
|---|---|---|---|---|---|---|---|---|
| | | | Purchases | Sales and settlements | Recorded in profit or loss | Recorded in other comprehensive income | | |
| **Assets** | | | | | | | | |
| Loans and advances to customers at fair value through other comprehensive income | 12,003,302 | — | 19,188,301 | (12,003,302) | — | (4,593) | 19,183,708 | — |
| Financial assets at fair value through profit or loss | | | | | | | | |
| — Rights to earnings on credit assets | 2,035,142 | — | 3,986,213 | (1,767,254) | (8,615) | — | 4,245,486 | 52,527 |
| — Others | 30,000 | — | — | — | 29 | — | 30,029 | 29 |
| Sub-total | 2,065,142 | — | 3,986,213 | (1,767,254) | (8,586) | — | 4,275,515 | 52,556 |
| Financial investments at fair value through other comprehensive income | | | | | | | | |
| — Debt securities | — | 584,941 | — | — | — | (508,532) | 76,409 | — |
| — Direct financing instruments for WMPs | 1,673,287 | — | 350,000 | (1,397,853) | — | 7,515 | 632,949 | — |
| — Rights to earnings on credit assets | 281,419 | — | 932,548 | (280,937) | — | 6,061 | 939,091 | — |
| — Unlisted equity investments | 615,765 | — | — | — | — | (3,822) | 611,943 | — |
| Sub-total | 2,570,471 | 584,941 | 1,282,548 | (1,678,790) | — | (498,778) | 2,260,392 | — |
| **Total** | 16,638,915 | 584,941 | 24,457,062 | (15,449,346) | (8,586) | (503,371) | 25,719,615 | 52,556 |

| The Group | January 1, 2019 | Acquisition of a subsidiary | Transfer into Level 3 | Purchases, sales and settlements | | Total gains or losses | | December 31, 2019 | Unrealized gains or losses included in profit or loss for assets and liabilities held at the end of the year |
|---|---|---|---|---|---|---|---|---|---|
| | | | | Purchases | Sales and settlements | Recorded in profit or loss | Recorded in other comprehensive income | | |
| **Assets** | | | | | | | | | |
| Loans and advances to customers at fair value through other comprehensive income | 19,183,708 | 2,964,031 | — | 16,220,176 | (20,528,136) | — | 128,702 | 17,968,481 | — |
| Financial assets at fair value through profit or loss | | | | | | | | | |
| — Rights to earnings on credit assets | 4,245,486 | — | — | 3,110,305 | (4,245,486) | 19,994 | — | 3,130,299 | 19,994 |
| — Others | 30,029 | — | — | — | — | (692) | — | 29,337 | (663) |
| Sub-total | 4,275,515 | — | — | 3,110,305 | (4,245,486) | 19,302 | — | 3,159,636 | 19,331 |
| Financial investments at fair value through other comprehensive income | | | | | | | | | |
| — Debt securities | 76,409 | — | 1,531,921 | — | — | — | (1,227,209) | 381,121 | — |
| — Direct financing instruments for WMPs | 632,949 | — | — | 550,000 | (592,549) | — | 22,527 | 612,927 | — |
| — Rights to earnings on credit assets | 939,091 | — | — | 505,925 | (853,939) | — | 10,492 | 601,569 | — |
| — Unlisted equity investments | 611,943 | 8,000 | — | — | (59,611) | — | 2,817 | 563,149 | — |
| Sub-total | 2,260,392 | 8,000 | 1,531,921 | 1,055,925 | (1,506,099) | — | (1,191,373) | 2,158,766 | — |
| **Total** | 25,719,615 | 2,972,031 | 1,531,921 | 20,386,406 | (26,279,721) | 19,302 | (1,062,671) | 23,286,883 | 19,331 |

| The Group | January 1, 2020 | Acquisition of a subsidiary | Transfer into Level 3 | Purchases, sales and settlements | | Total gains or losses | | December 31, 2020 | Unrealized gains or losses included in profit or loss for assets and liabilities held at the end of the year |
|---|---|---|---|---|---|---|---|---|---|
| | | | | Purchases | Sales and settlements | Recorded in profit or loss | Recorded in other comprehensive income | | |
| **Assets** | | | | | | | | | |
| Loans and advances to customers at fair value through other comprehensive income | 17,968,481 | 1,444,963 | — | 24,310,566 | (17,968,480) | — | 2,061,586 | 27,817,116 | — |
| Financial assets at fair value through profit or loss | | | | | | | | | |
| — Rights to earnings on credit assets | 3,130,299 | — | — | 6,032,018 | (3,130,299) | (2,597,175) | — | 3,434,843 | (2,597,175) |
| — Others | 29,337 | — | — | — | — | (2,033) | — | 27,304 | (2,450) |
| Sub-total | 3,159,636 | — | — | 6,032,018 | (3,130,299) | (2,599,208) | — | 3,462,147 | (2,599,625) |
| Financial investments at fair value through other comprehensive income | | | | | | | | | |
| — Debt securities | 381,121 | — | 112,803 | — | — | — | (128,949) | 364,975 | — |
| — Direct financing instruments for WMPs | 612,927 | — | — | 205,840 | (592,010) | — | (694) | 226,063 | — |
| — Rights to earnings on credit assets | 601,569 | — | — | 432,848 | (577,774) | — | (10,468) | 446,175 | — |
| — Unlisted equity investments | 563,149 | — | — | — | — | — | 3,556 | 566,705 | — |
| Sub-total | 2,158,766 | — | 112,803 | 638,688 | (1,169,784) | — | (136,555) | 1,603,918 | — |
| **Total** | 23,286,883 | 1,444,963 | 112,803 | 30,981,272 | (22,268,563) | (2,599,208) | 1,925,031 | 32,883,181 | (2,599,625) |

| The Group | January 1, 2021 | Transfer into Level 3 | Purchases, sales and settlements | | Total gains or losses | | March 31, 2021 | Unrealized gains or losses included in profit or loss for assets and liabilities held at the end of the period |
|---|---|---|---|---|---|---|---|---|
| | | | Purchases | Sales and settlements | Recorded in profit or loss | Recorded in other comprehensive income | | |
| **Assets** | | | | | | | | |
| Loans and advances to customers at fair value through other comprehensive income | 27,817,116 | — | 13,602,278 | (15,086,919) | — | 1,051,386 | 27,383,861 | — |
| Financial assets at fair value through profit or loss | | | | | | | | |
| — Rights to earnings on credit assets | 3,434,843 | — | — | (10,000) | 10,215 | — | 3,435,058 | 10,215 |
| — Others | 27,304 | — | — | — | 628 | — | 27,932 | (1,822) |
| Sub-total | 3,462,147 | — | — | (10,000) | 10,843 | — | 3,462,990 | 8,393 |
| Financial investments at fair value through other comprehensive income | | | | | | | | |
| — Debt securities | 364,975 | — | — | — | — | (183,793) | 181,182 | — |
| — Direct financing instruments for WMPs | 226,063 | — | — | (2,378) | — | (242) | 223,443 | — |
| — Rights to earnings on credit assets | 446,175 | — | — | — | — | (173,584) | 272,591 | — |
| — Unlisted equity investments | 566,705 | — | — | — | — | 8,499 | 575,204 | — |
| Sub-total | 1,603,918 | — | — | (2,378) | — | (349,120) | 1,252,420 | — |
| **Total** | 32,883,181 | — | 13,602,278 | (15,099,297) | 10,843 | 702,266 | 32,099,271 | 8,393 |

### 42.5 Capital management

The Group's capital management objectives are as follows:

- maintain an adequate capital base to support the development of its business;
- support the Group's financial stability and profitable growth;
- allocate capital through an efficient and risk based approach to optimize risk-adjusted return to shareholders; and
- safeguard the long-term sustainability of the Group's franchise so that it can continue to provide sufficient owner returns and benefits for other stakeholders.

Capital adequacy ratio and the use of regulatory capital are monitored quarterly by the Bank's management with employing techniques based on the guidelines developed by the Basel Committee, as implemented by the CBIRC, for supervisory purposes. The required information is filed with the CBIRC on a quarterly basis.

The Bank calculated the capital adequacy ratio based on the Rules for Regulating the Capital Adequacy of Commercial Banks (Trial) issued by CBIRC in June 2012. According to the approach, the Bank calculated the credit risk-weighted assets measurement by the weighted method, market risk-weighted assets measurement by the standard method, and operation risk-weighted assets measurement by the basic indicator method.

As at December 31, 2018, 2019 and 2020 and March 31, 2021, the capital adequacy ratios and related components of the Group illustrated below are computed based on the Group's statutory financial statements prepared in accordance with PRC GAAP.

The CBIRC requires commercial banks to meet the requirements of capital adequacy ratios by the end of 2018 in accordance with the Rules for Regulating the Capital Adequacy of Commercial Banks (Trial). For systematically important banks, CBIRC requires minimum core tier 1 capital adequacy ratio, tier 1 capital adequacy ratio and capital adequacy ratio of 8.50%, 9.50% and 11.50% respectively. For non-systematically important banks, CBIRC requires corresponding minimum ratios of 7.50%, 8.50% and 10.50%, respectively. At present, the Bank is fully compliant with legal and regulatory requirements.

The capital adequacy ratio of December 31, 2018, 2019 and 2020 and March 31, 2021 under the Rules for Regulating the Capital Adequacy of Commercial Banks (Trial) is as follows:

| | As at December 31, | | | As at March 31, |
|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 |
| Core tier 1 capital | 29,836,617 | 34,326,709 | 37,017,880 | 38,718,600 |
| Core tier 1 capital deductions | (11,975) | (5,466) | (543,201) | (554,062) |
| Net core tier 1 capital | 29,824,642 | 34,321,243 | 36,474,679 | 38,164,538 |
| Other tier 1 capital | 13,530 | 68,307 | 116,300 | 127,655 |
| Net tier 1 capital | 29,838,172 | 34,389,550 | 36,590,979 | 38,292,193 |
| Tier 2 capital | 6,801,076 | 7,184,332 | 7,676,173 | 7,863,852 |
| Net capital | 36,639,248 | 41,573,882 | 44,267,152 | 46,156,045 |
| Total risk-weighted assets | 246,896,116 | 271,759,654 | 316,197,405 | 331,271,072 |
| Core tier 1 capital adequacy ratio | 12.08% | 12.63% | 11.54% | 11.52% |
| Tier 1 capital adequacy ratio | 12.09% | 12.65% | 11.57% | 11.56% |
| Capital adequacy ratio | 14.84% | 15.30% | 14.00% | 13.93% |

**43 Events after the reporting period**

43.1 Dividend

Upon approval at the 2020 Annual General Meeting on April 23, 2021, the Bank distributed cash dividend of RMB2.6 (tax inclusive) per ten shares, with a total amount of RMB1,492.5 million, to shareholders of the Bank.

Pursuant to the resolutions of the shareholders general meeting on April 25, 2019, the Bank declared a special cash dividend of RMB1.5 per ten shares to its shareholders before the completion of the global offering and the listing. Following that, pursuant to the resolutions of the Board of Directors on September 6, 2021, the Bank confirmed to declare the special cash dividend to its shareholders whose name appear on the Bank's register of members on August 31, 2021. The total amount of such dividend is approximately RMB861.1 million, which is expected to be paid after the entering into of the Price Determination Agreement and before the listing date. As the Bank can control whether to distribute the special dividend or not through controlling the progress of the listing, and the successful listing was uncertain for the Track Record Period, such special dividend has not been recognized for the Track Record Period.

43.2 Issuance of eligible tier 2 capital instruments

The 2020 Annual General Meeting of Shareholders of the Bank considered and approved the proposal on the public issuance of eligible tier 2 capital bonds of Dongguan Rural Commercial Bank Co., Ltd. on April 23, 2021. The Bank planned to issue eligible tier 2 capital instruments of not more than RMB4.0 billion (inclusive) in the domestic markets to replenish the Bank's tier 2 capital. The eligible tier 2 capital instruments issuance plan is further subject to the approval by the relevant regulatory authorities.

**III SUBSEQUENT FINANCIAL STATEMENTS**

No audited financial statements have been prepared by the Bank or any of its subsidiaries in respect of any period subsequent to March 31, 2021 and up to the date of this report.

## 1. Liquidity coverage ratio

| | December 31, | | | March 31, |
|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 |
| Liquidity coverage ratio | 188.7% | 224.81% | 244.16% | 207.48% |

The liquidity coverage ratios were also in accordance with the Rules on Liquidity Risk Management of Commercial Banks issued by the CBIRC and applicable calculation requirements, and based on the data determined under the PRC GAAP.

## 2. Leverage ratio

| | December 31, | | | March 31, |
|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 |
| Leverage ratio | 7.26% | 7.58% | 6.87% | 7.12% |

In according with the requirements of the *Measures for the Liquidity Risk Management of Commercial Banks (for Trial Implementation)* that became effective on April 1, 2015, the leverage ratio shall not be less than 4%.

The above liquidity coverage ratio and leverage ratio are calculated in accordance with formulas set out by CBIRC and financial information prepared under the PRC GAAP.

## 3. Currency concentrations

| | USD RMB equivalent | HKD RMB equivalent | Other currencies RMB equivalent | Total |
|---|---|---|---|---|
| December 31, 2018 | | | | |
| Spot assets | 1,707,093 | 679,030 | 4,420 | 2,390,543 |
| Spot liabilities | 1,640,760 | 680,659 | 4,394 | 2,325,813 |
| Net long/(short) position | 66,333 | (1,629) | 26 | 64,730 |

| | USD RMB equivalent | HKD RMB equivalent | Other currencies RMB equivalent | Total |
|---|---|---|---|---|
| December 31, 2019 | | | | |
| Spot assets | 589,996 | 640,871 | 1,885 | 1,232,752 |
| Spot liabilities | 531,491 | 657,661 | 10,086 | 1,199,238 |
| Net long/(short) position | 58,505 | (16,790) | (8,201) | 33,514 |

| | USD RMB equivalent | HKD RMB equivalent | Other currencies RMB equivalent | Total |
|---|---|---|---|---|
| December 31, 2020 | | | | |
| Spot assets | 631,482 | 598,975 | 2,101 | 1,232,558 |
| Spot liabilities | 598,305 | 614,464 | 5,764 | 1,218,533 |
| Net long/(short) position | 33,177 | (15,489) | (3,663) | 14,025 |

| | USD RMB equivalent | HKD RMB equivalent | Other currencies RMB equivalent | Total |
|---|---|---|---|---|
| March 31, 2021 | | | | |
| Spot assets | 607,057 | 601,272 | 636 | 1,208,965 |
| Spot liabilities | 601,861 | 592,502 | 6,385 | 1,200,748 |
| Net long/(short) position | 5,196 | 8,770 | (5,749) | 8,217 |

## 4. International claims

The international claims of the Group are the sum of cross-border claims in all currencies and local claims in foreign currencies. The Group mainly conducts its business operations within Mainland China, and regards all third-party claims outside Mainland China as cross-border claims.

International claims include balances with central banks, financial assets held under resale agreements and deposits and placements with banks and other financial institutions, loans and advances to customers and financial investments.

International claims are presented by country or geographical regions. International claims of a country or geographical region are reported only when its cross-border claims, including risk transfers constitute 10% or more of the aggregate amount of international claims. Risk transfers are made if the place where the guarantor of claims is located is not the same as the counterparty or if the debtor is an overseas branch of a bank whose headquarters is located in another country.

| | December 31, 2018 | | | |
|---|---|---|---|---|
| | Banks | Official sector | Non-bank private sector | Total |
| Asia Pacific, excluding Mainland China | 984,665 | — | 9,822 | 994,487 |
| — Amounts attributable to Hong Kong | 975,246 | — | 9,822 | 985,068 |
| Europe | 2,648 | — | 1,485 | 4,133 |
| North and South Americas | 1,062,763 | — | 329,160 | 1,391,923 |
| Total | 2,050,076 | — | 340,467 | 2,390,543 |

| | December 31, 2019 | | | |
|---|---|---|---|---|
| | Banks | Official sector | Non-bank private sector | Total |
| Asia Pacific, excluding Mainland China | 545,555 | — | 85,560 | 631,115 |
| — Amounts attributable to Hong Kong | 91,762 | — | 85,560 | 177,322 |
| Europe | 158,058 | — | 1,365 | 159,423 |
| North and South Americas | 18,555 | — | 423,659 | 442,214 |
| Total | 722,168 | — | 510,584 | 1,232,752 |

| | December 31, 2020 | | | |
|---|---|---|---|---|
| | Banks | Official sector | Non-bank private sector | Total |
| Asia Pacific, excluding Mainland China | 415,022 | — | 95,113 | 510,135 |
| — Amounts attributable to Hong Kong | 173,648 | — | 95,113 | 268,761 |
| Europe | 370,818 | — | — | 370,818 |
| North and South Americas | 76,324 | — | 275,281 | 351,605 |
| Total | 862,164 | — | 370,394 | 1,232,558 |

| | March 31, 2021 | | | |
|---|---|---|---|---|
| | Banks | Official sector | Non-bank private sector | Total |
| Asia Pacific, excluding Mainland China | 467,345 | — | 92,365 | 559,710 |
| — Amounts attributable to Hong Kong | 268,401 | — | 92,365 | 360,766 |
| Europe | 362,921 | — | — | 362,921 |
| North and South Americas | 54,118 | — | 232,216 | 286,334 |
| Total | 884,384 | — | 324,581 | 1,208,965 |

**5. Overdue assets**

(1) Gross carrying amount of overdue loans and advances to customers

| | December 31, 2018 | December 31, 2019 | December 31, 2020 | March 31, 2021 |
|---|---|---|---|---|
| Overdue | | | | |
| Within 3 months | 1,193,945 | 1,211,181 | 1,017,345 | 1,439,344 |
| 3 to 6 months | 190,789 | 90,083 | 327,679 | 330,701 |
| 6 to 12 months | 866,653 | 602,372 | 301,604 | 372,542 |
| More than 12 months | 966,179 | 1,080,573 | 901,608 | 1,005,062 |
| Total | 3,217,566 | 2,984,209 | 2,548,236 | 3,147,649 |

The percentages of overdue loans and advances to customers

| | December 31, 2018 | December 31, 2019 | December 31, 2020 | March 31, 2021 |
|---|---|---|---|---|
| Overdue | | | | |
| Within 3 months | 0.73% | 0.59% | 0.39% | 0.52% |
| 3 to 6 months | 0.12% | 0.04% | 0.13% | 0.12% |
| 6 to 12 months | 0.53% | 0.29% | 0.12% | 0.14% |
| More than 12 months | 0.59% | 0.52% | 0.34% | 0.36% |
| Total | 1.97% | 1.44% | 0.98% | 1.14% |

(2) Nominal value overdue financial assets at fair value through profit or loss

| | December 31, 2018 | December 31, 2019 | December 31, 2020 | March 31, 2021 |
|---|---|---|---|---|
| Overdue | | | | |
| Within 3 months | — | — | — | — |
| 3 to 6 months | — | 20,000 | — | — |
| 6 to 12 months | — | 6,500 | — | — |
| More than 12 months | — | — | 26,500 | 26,500 |
| Total | — | 26,500 | 26,500 | 26,500 |

(3) Nominal value of overdue financial investments at fair value through other comprehensive income

| | December 31, 2018 | December 31, 2019 | December 31, 2020 | March 31, 2021 |
|---|---|---|---|---|
| Overdue | | | | |
| Within 3 months | 280,000 | 670,000 | 1,206,577 | — |
| 3 to 6 months | 30,000 | 260,990 | — | 1,000,084 |
| 6 to 12 months | — | 300,000 | 40,000 | 9,990 |
| More than 12 months | — | 360,000 | 841,000 | 881,000 |
| Total | 310,000 | 1,590,990 | 2,087,577 | 1,891,074 |

*The following information does not form part of the Accountant's Report from PricewaterhouseCoopers, Certified Public Accountants, the reporting accountant of the Bank, as set forth in Appendix I to this prospectus, and is included herein for information only. The unaudited pro forma financial information should be read in conjunction with the section entitled "Financial Information" in this prospectus and the "Accountant's Report" set forth in Appendix I to this prospectus.*

## A. UNAUDITED PRO FORMA STATEMENT OFADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted net tangible assets of the Bank prepared in accordance with Rule 4.29 of the Listing Rules is for illustrative purposes only, and is set out below to illustrate the effect of the Global Offering on the net tangible assets attributable to the shareholders of the Bank as of March 31, 2021 as if the Global Offering had taken place on March 31, 2021.

This unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the net tangible assets of the Bank as at March 31, 2021 or at any future dates following the Global Offering.

| | Audited net tangible assets attributable to the shareholders of the Bank as at March 31, 2021 | Special dividend | Estimated net proceeds from the Global Offering | Unaudited pro forma adjusted net tangible assets attributable to the shareholders of the Bank as at March 31, 2021 | Unaudited pro forma adjusted net tangible assets per Share | |
|---|---|---|---|---|---|---|
| | RMB Thousand (Note 1) | RMB Thousand (Note 2) | RMB Thousand (Note 3) | RMB Thousand | RMB (Note 4) | HK$ (Note 5) |
| Based on the Offer Price of HK$7.92 per Offer Share | 37,149,737 | (861,068) | 7,345,172 | 43,633,841 | 6.33 | 7.63 |
| Based on the Offer Price of HK$8.71 per Offer Share | 37,149,737 | (861,068) | 8,083,217 | 44,371,886 | 6.44 | 7.76 |

*Notes:*

(1) The consolidated net tangible assets attributable to the shareholders of the Bank as of March 31, 2021 are based on the consolidated net assets attributable to the shareholders of the Bank of RMB37,761.2 million, after deduction of intangible assets of RMB91.0 million and goodwill of RMB520.5 million.

(2) Pursuant to the resolutions of the Shareholders general meeting on April 25, 2019, the Bank declared a special cash dividend of RMB1.5 per ten shares to its Shareholders before the completion of the global offering and the listing. Following that, pursuant to the resolutions of our Board of Directors on September 6, 2021, the Bank confirmed to declare the special cash dividend to its Shareholders whose name appear on the Bank's register of members on August 31, 2021. The total amount of such dividend is approximately RMB861.1 million, which is expected to be paid after the entering into of the Price Determination Agreement and before the listing date. For the purpose of this unaudited pro forma information, the special dividend is regarded as part of the subject matter of the Global Offering and the amount of dividend of RMB861.1 million is calculated based on the number of shares of 5,740 million shares of the Bank as at March 31, 2021.

(3) The estimated net proceeds from the Global Offering for the purpose of unaudited pro forma adjusted consolidated net tangible assets are based on the Offer Price of HK$7.92 per Offer Share (being the low-end of the proposed Offer Price range) and HK$8.71 per Offer Share (being the high-end of the proposed Offer Price range) and there are 1,148,091,000 Offer Shares to be issued in the Global Offering, after deduction of the underwriting fees and other related listing expenses payable by the Bank and taking no account of any Shares which may be issued upon the exercise of the Over-allotment Option.

(4) The unaudited pro forma adjusted consolidated net tangible assets per Share are arrived at after the adjustments referred to in the preceding paragraphs and on the basis of 6,888,545,510 Shares in issue assuming that the Global Offering has been completed on March 31, 2021, and taking no account of any Shares which may be issued upon the exercise of the Over-allotment Option.

(5) For the purpose of this unaudited pro forma adjusted net tangible assets, the balances stated in Renminbi are converted into Hong Kong dollars at a rate of RMB0.8304 to HK$1.00. No representation is made that the Hong Kong dollar amounts have been, could have been or could be converted to Renminbi, or vice versa, at that rate.

(6) No adjustment has been made to reflect any trading results or other transactions of the Group entered into subsequent to March 31, 2021. In particular, this unaudited pro forma financial information does not account for the cash dividend of RMB1,492.5 million declared on April 23, 2021. Had the dividends been taken into account, the unaudited pro forma adjusted net tangible assets attributable to the shareholders of the Bank would have been RMB42,141 million and RMB42,879 million, and the unaudited pro forma adjusted net tangible assets per Share would have been RMB6.12 (HK$7.37) and RMB6.22 (HK$7.50) per Share based on the Offer Price of HK$7.92 and HK$8.71 per Offer Share, respectively.

## B. REPORT FROM THE REPORTING ACCOUNTANT ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

*The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.*

pwc 羅兵咸永道

**INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION**

To the Directors of Dongguan Rural Commercial Bank Co., Ltd.

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Dongguan Rural Commercial Bank Co., Ltd. (the "Bank") and its subsidiaries (collectively the "Group") by the directors for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group as at March 31, 2021, and related notes (the "Unaudited Pro Forma Financial Information") as set out on pages III-1 to III-2 of the Bank's prospectus dated September 16, 2021, in connection with the proposed initial public offering of the shares (the "Prospectus") of the Bank. The applicable criteria on the basis of which the directors have compiled the Unaudited Pro Forma Financial Information are described on pages III-1 to III-2 of the Prospectus.

The Unaudited Pro Forma Financial Information has been compiled by the directors to illustrate the impact of the proposed initial public offering on the Group's financial position as at March 31, 2021 as if the proposed initial public offering had taken place at March 31, 2021. As part of this process, information about the Group's financial position has been extracted by the directors from the Group's financial information for the period ended March 31, 2021, on which an accountant's report has been published.

*Directors' Responsibility for the Unaudited Pro Forma Financial Information*

The directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

*Our Independence and Quality Control*

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

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Our firm applies Hong Kong Standard on Quality Control 1 issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

*Reporting Accountant's Responsibilities*

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420, *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*, issued by the HKICPA. This standard requires that the reporting accountant plans and performs procedures to obtain reasonable assurance about whether the directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of unaudited pro forma financial information included in a prospectus is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the proposed initial public offering at March 31, 2021 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the Bank, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

*Opinion*

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Bank on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

**PricewaterhouseCoopers**
*Certified Public Accountants*
Hong Kong, September 16, 2021

This Appendix sets out summaries of certain aspects of PRC laws and regulations, which are relevant to the operations and business of our Bank. Laws and regulations relating to taxation in the PRC are discussed separately in Appendix VI — "Taxation and Foreign Exchange" to this prospectus. This Appendix also contains a summary of certain Hong Kong legal and regulatory provisions, including summaries of certain material differences between the PRC Company Law and the Companies (Winding Up and Miscellaneous Provisions) Ordinance, certain requirements of the Hong Kong Listing Rules and additional provisions required by the Hong Kong Stock Exchange for inclusion in the articles of association of PRC issuers. The principal objective of this summary is to provide potential investors with an overview of the principal laws and regulations applicable to our Bank. This summary is not intended to include all the information which may be important to the potential investors. For discussion of laws and regulations which are relevant to the business of our Bank, please see the section headed "Supervision and Regulation" in this prospectus.

## PRC LAWS AND REGULATIONS

### A. The PRC Legal System

The PRC legal system is based on the Constitution of the PRC (the "Constitution") and is made up of written laws, administrative regulations, local regulations, autonomous regulations, separate regulations, rules and regulations of State Council departments, rules and regulations of local governments, laws of special administrative regions and international treaties of which the PRC government is a signatory and other regulatory documents. Court judgments do not constitute legally binding precedents, although they are used for the purposes of judicial reference and guidance.

The National People's Congress (the "NPC") and its Standing Committee are empowered to exercise the legislative power of the State. The NPC has the power to formulate and amend basic laws governing State organs, civil, criminal and other matters. The Standing Committee of the NPC is empowered to formulate and amend laws other than those required to be enacted by the NPC and to supplement and amend parts of the laws enacted by the NPC during the adjournment of the NPC, provided that such supplements and amendments are not in conflict with the basic principles of such laws.

The State Council is the highest organ of state administration and has the power to formulate administrative regulations based on the Constitution and laws.

The people's congresses of the provinces, autonomous regions and municipalities directly under the center government and their respective standing committees may formulate local regulations based on the specific circumstances and actual needs of their respective administrative areas, provided that such local regulations do not contravene any provision of the Constitution, laws or administrative regulations. The people's congresses of cities divided into districts and their respective standing committees may formulate local regulations on aspects such as urban and rural construction and management, environmental protection and historical and cultural protection based on the specific circumstances and actual needs of such cities, provided that such local regulations do not contravene any provision of the Constitution, laws, administrative regulations and local regulations of their respective provinces or autonomous regions. If laws provide otherwise on the formulation of local regulations by cities divided into districts, such laws shall prevail. Such local regulations of cities divided into districts will become enforceable after being reported to and approved by the standing committees of the people's congresses of the relevant provinces or autonomous regions. The standing committees of the people's congresses of the provinces or autonomous regions shall examine the legality of local regulations submitted for approval, and such approval should be granted within four months if they are not in conflict with the Constitution, laws, administrative regulations and local regulations of the provinces or autonomous regions concerned. Where, during the examination for approval of local regulations of cities divided into districts by the standing committees of the people's congresses of the provinces or autonomous regions, conflicts are identified with the rules of the people's governments of the respective provinces or autonomous regions, the standing committees of the people's congresses of provinces or autonomous regions shall resolve the issue. The ministries and commissions of the State Council, PBoC, NAO and the subordinate institutions with administrative functions directly under the State Council may formulate rules and regulations within the scope of authorization of the relevant departments in accordance with the laws and administrative regulations and the decisions and orders of the State Council. Provisions of departmental rules should be the matters related to the enforcement of the laws and administrative regulations and the decisions and orders of the State Council. Without provisions under laws or administrative regulations, decisions and orders of the State Council, the provisions of departmental rules shall not undermine the civil rights and rights of legal persons and other organizations or strengthen the regulations in respect of their obligations and shall not enhance the power or reduce the legal responsibilities of the respective departments. The people's governments of the provinces, autonomous regions, municipalities under the center government and cities or autonomous prefectures divided into districts may formulate rules and regulations based on the laws, administrative regulations and local regulations of such provinces, autonomous regions and municipalities under the center government.

According to the Constitution, the power to interpret laws is vested in the Standing Committee of the NPC. Pursuant to the Resolution of the Standing Committee of the NPC on Providing an Improved Interpretation of the Law (《全國人民代表大會常務委員會關於加強法律解釋工作的決議》) passed on June 10, 1981, issues related to the application of laws in a court trial should be interpreted by the Supreme People's Court, issues related to the application of laws in a prosecution process should be interpreted by the Supreme People's Procuratorate, and the other issues related to laws other than the abovementioned should be interpreted by the State Council and the competent authorities. The State Council and its ministries and commissions are also vested with the power to give interpretations of the administrative regulations and departmental rules which they have promulgated. At the regional level, local regulations which need to be further clarified or supplemented shall be interpreted and provided by the standing committees of the provinces, autonomous regions and municipalities under the center government which formulated the respective regulations, while issues associated with specific application of local regulations shall be explained by the competent departments of the people's governments of the provinces, autonomous regions and municipalities under the center government.

**B. The PRC Judicial System**

Under the Constitution and the Law of Organization of the People's Courts of the PRC (《中華人民共和國人民法院組織法》), the people's courts are made up of the Supreme People's Court, the local people's courts, the military courts and other special people's courts. The local people's courts are divided into three levels, namely, the basic people's courts, the intermediate people's courts and the higher people's courts. The basic people's courts are divided into civil, criminal and economic divisions, and certain people's courts may be established based on the natures of the region, population and cases. The intermediate people's courts have divisions similar to those of the basic people's courts and may set up other special divisions, such as the intellectual property division, if needed. These two levels of people's courts are subject to supervision by people's courts at higher levels. The Supreme People's Procuratorate is authorized to supervise the judgment and ruling of the people's courts at all levels which have been legally effective, and the people's procuratorate at a higher level is authorized to supervise the judgment and ruling of a people's court at lower levels which have been legally effective. The Supreme People's Court is the highest trial authority in the PRC and supervises the court trials by the people's courts at all levels.

The judgments or rulings of the second instance at the people's court are final. A party may appeal against the judgment or ruling of the first instance of a local people's court. The people's procuratorate may present a protest to the people's court at upper level in accordance with the procedures stipulated by the laws. In the absence of any appeal by the parties and any protest by the people's procuratorate within the stipulated period, the judgments or rulings of the people's court are final. Judgments or rulings of the second instance of the intermediate people's courts, the higher people's courts and the Supreme People's Court, and judgments or rulings of the first instance of the Supreme People's Court are final. However, if the Supreme People's Court or a people's court at upper level discovers an error in a final and binding judgment or ruling by any people's court at a lower level, or the presiding judge of a people's court discovers an error in a final and binding judgment or ruling by the court over which he resides, a retrial of the case may be initiated according to the judicial supervision procedures.

The Civil Procedure Law of the PRC (《中華人民共和國民事訴訟法》) (the "PRC Civil Procedure Law") adopted on April 9, 1991 and amended on October 28, 2007, August 31, 2012 and June 27, 2017 prescribes the conditions for instituting a civil action, the jurisdiction of the people's courts, the procedures for conducting a civil action, and the procedures for enforcement of a civil judgment or ruling. All parties to a civil action conducted within the PRC must abide by the PRC Civil Procedure Law. A civil case is generally heard by the court located in the defendant's place of domicile. The court of jurisdiction in respect of a civil action may also be chosen by explicit agreement among the parties to a contract, provided that the people's court having jurisdiction should be located at places directly connected with the disputes, such as the plaintiff's or the defendant's place of domicile, the place where the contract is executed or signed or the place where the object of the action is located. However, such choice shall not in any circumstances contravene the regulations of differential jurisdiction and exclusive jurisdiction.

A foreign individual, a person without nationality or foreign enterprise or organization is generally given the same litigation rights and obligations as a citizen or legal person of the PRC. Should a foreign court limit the litigation rights of PRC citizens or enterprises, the PRC court may apply the same limitations to the citizens and enterprises of such foreign country. A foreign individual, foreign enterprise or organization must engage a PRC lawyer in case he or it needs to engage a lawyer for the purpose of initiating actions or defending against litigations at a PRC court. In accordance with the international treaties to which the PRC is a signatory or participant or according to the principle of reciprocity, a PRC court and foreign court may request each other to serve legal documents, conduct investigation and collect evidence and conduct other actions on its behalf. A PRC court shall not accommodate any request made by a foreign court which will result in the violation of sovereignty, security or public interests of the PRC.

All parties to a civil action shall perform the legally effective judgments and rulings. If any party to a civil action refuses to abide by a judgment or ruling made by a people's court or an award made by an arbitration tribunal in the PRC, the other party may apply to the people's court for the enforcement of the same within two years subject to application for postponed enforcement or revocation. If a party fails to satisfy within the stipulated period a judgment which the court has granted an enforcement approval, the court may, upon the application of the other party, mandatorily enforce the judgment against such party.

A party seeking to enforce a judgment or ruling of a people's court against another party who is not or whose property is not within the PRC may apply to a foreign court with jurisdiction over the case for recognition and enforcement of such judgment or ruling. Likewise, if the PRC has entered into either a treaty relating to judicial enforcement with the relevant foreign country or a relevant international convention, a foreign judgment or ruling may also be recognized and enforced in accordance with the PRC enforcement procedures by a PRC court based on equitable principles unless the people's court considers that the recognition or enforcement of such judgment or ruling would violate the basic legal principles of the PRC, its sovereignty or national security, or would not be in the public interest.

## C. The PRC Company Law, the Special Regulations and the Mandatory Provisions

The PRC Company Law was adopted by the Standing Committee of the Eighth Session of the NPC at its fifth meeting on December 29, 1993 and came into effect on July 1, 1994. It was amended on December 25, 1999, August 28, 2004, October 27, 2005, December 28, 2013 and October 26, 2018. The revised PRC Company Law came into effect on October 26, 2018.

The Special Regulations of the State Council on the Overseas Offering and the Listing of Shares by Joint Stock Limited Companies (《國務院關於股份有限公司境外募集股份及上市的特別規定》) ("the Special Regulations") were passed at the 22nd Standing Committee Meeting of the State Council on July 4, 1994 and promulgated and implemented on August 4, 1994. The Special Regulations include provisions in respect of the overseas share offering and listing of joint stock limited companies. The Mandatory Provisions for the Articles of Association of Companies to be Listed Overseas (《到境外上市公司章程必備條款》) ("the Mandatory Provisions") jointly promulgated by the former Securities Commission of the State Council and the former State Restructuring Commission on August 27, 1994 prescribe that the provisions should be incorporated in the articles of association of joint stock limited companies to be listed overseas stock exchanges. Accordingly, the Mandatory Provisions have been incorporated in the Articles of Association, a summary of which is set out in Appendix V — "Summary of Articles of Association" of this prospectus. References to a "company" made in this Appendix are to a joint stock limited company established under the PRC Company Law with H shares to be issued.

Set out below is a summary of the major provisions of the PRC Company Law, the Special Regulations and the Mandatory Provisions.

### *General*

A "joint stock limited company ("company")" refers to a corporate legal person established in China under the PRC Company Law with independent legal person properties and entitlements to such legal person properties. The liability of the company is limited to the total amount of all assets it owns and the liability of its shareholders is limited to the extent of the shares they subscribe for.

*Incorporation*

A company may be incorporated by promotion or subscription. A company shall be incorporated by a minimum of two but no more than 200 promoters, and at least half of the promoters must be resident within the PRC. Companies incorporated by promotion are companies of which the entire registered capital is subscribed for by the promoters registered with the registration authorities. Shares in the company shall not be offered to others unless the registered capital has been fully paid up. For companies incorporated by subscription, the registered capital is the total paid-up capital as registered with the relevant registration authorities. If laws, regulations and decisions of the State Council provide otherwise on paid-in registered capital and the minimum registered capital, the company should follow such provisions.

For companies incorporated by way of promotion, the promoters shall subscribe in writing for the shares required to be subscribed for by them and pay up their capital contributions under the articles of association. Procedures relating to the transfer of titles to non-monetary assets shall be duly completed if such assets are to be contributed as capital. Promoters who fail to pay up their capital contributions in accordance with the foregoing provisions shall assume default liabilities in accordance with the covenants set out in the promoters' agreement. After the promoters have confirmed the capital contribution under the articles of association, a board of directors and a supervisory board shall be elected and the board of directors shall apply for registration of incorporation by filing the articles of association with the company registration authority, and other documents as required by the law or administrative regulations.

Where companies are incorporated by subscription, not less than 35% of their total number of shares must be subscribed for by the promoters, unless otherwise provided for by the laws or administrative regulations. A promoter who offers shares to the public must publish a share offering prospectus and prepare a share subscription form to be completed, signed and sealed by subscribers, specifying the number and amount of shares to be subscribed for and the subscribers' addresses. The subscribers shall pay up monies for the shares they subscribe for. Where a promoter is offering shares to the public, such offer shall be underwritten by security companies established under the PRC law, and underwriting agreements shall be entered into. A promoter offering shares to the public shall also enter into agreements with banks in relation to the receipt of subscription monies. The receiving banks shall receive and keep in custody the subscription monies, issue receipts to subscribers who have paid the subscription monies and is obliged to furnish evidence of receipt of those subscription monies to relevant authorities. After the subscription monies for the share issue have been paid in full, a capital verification institution established under the PRC law must be engaged to conduct a capital verification and furnish a report thereon. The promoters shall convene an inauguration meeting within 30 days following the full payment of subscription monies. The inauguration meeting shall be formed by the promoters and subscribers. Where the shares issued remain under subscribed by the cut-off date stipulated in the share offering prospectus, or where the promoter fails to convene an inauguration meeting within 30 days of the subscription monies for the shares issued being fully paid up, the subscribers may demand that the promoters refund the subscription monies so paid together with the interest at bank rates of a deposit for the same period. Within 30 days of the conclusion of the inauguration meeting, the board of directors shall apply to the company registration authority for registration of the establishment of the company. A company is formally established and has the status of a legal person after approval of registration has been given by the relevant market regulatory and administration bureau and a business license has been issued.

A company's promoter shall be liable for:

(i) the debts and expenses incurred in the incorporation process jointly and severally if the company cannot be incorporated;

(ii) the refund of subscription monies paid by the subscribers together with interest at bank rates of deposit for the same period jointly and severally if the company cannot be incorporated; and

(iii) the compensation of any damages suffered by the company as a result of the promoters' default in the course of its incorporation.

***Share Capital***

The promoters may make a capital contribution in currencies, or non-monetary assets such as in kind or intellectual property rights or land use rights which can be appraised with monetary value and transferred lawfully, except for assets which are prohibited from being contributed as capital by the laws or administrative regulations. If a capital contribution is made in non-monetary assets, a valuation of the assets contributed must be carried out pursuant to the provisions of the laws or administrative regulations on valuation without any over-valuation or under-valuation.

The issuance of shares shall be conducted in a fair and equitable manner. The same class of shares must carry equal rights. Shares issued at the same time and within the same class must be issued on the same conditions and at the same price. The same price per share shall be paid by any share subscriber (whether an entity or an individual). The share offering price may be equal to or greater than the nominal value of the share, but may not be less than the nominal value.

A company must obtain the approval of CSRC to offer its shares to the overseas public. The Special Regulations and the Mandatory Provisions provide that shares issued to foreign investors and listed overseas shall be in registered form, denominated in Renminbi and subscribed for in foreign currency. Shares issued to foreign investors and investors from the territories of Hong Kong, Macau and Taiwan and listed in Hong Kong are classified as H shares, and those shares issued to investors within the PRC, except the regions above, are known as domestic shares. Under the Special Regulations, upon approval of CSRC, a company may agree, in the underwriting agreement in respect of an issue of H shares, to retain not more than 15% of the aggregate number of overseas listed foreign invested shares proposed to be issued in addition to the number of underwritten shares. The issuance of reserved shares is considered as part of the issuance.

Under the PRC Company Law, a company issuing registered share certificates shall maintain a shareholder registry which sets forth the following matters:

(i) the name and domicile of each shareholder;

(ii) the number of shares held by each shareholder;

(iii) the serial numbers of shares held by each shareholder; and

(iv) the date on which each shareholder acquired the shares.

***Increase in Share Capital***

Where a company is issuing new shares, resolutions shall be passed at general meeting in accordance with the articles of association in respect of the class and amount of the new shares, the issue price of the new shares, the commencement and end dates for the issue of the new shares and the class and amount of the new shares proposed to be issued to existing shareholders.

When a company launches a public issue of new shares upon the approval by CSRC, a new share offering prospectus and financial accounting report must be published and a subscription form must be prepared. After the new share issue of the company has been paid up, the change must be registered with the relevant market regulatory and administration bureau and a public announcement must be made accordingly. Where an increase in registered capital of a company is made by means of an issue of new shares, the subscription of new shares by shareholders shall be made in accordance with the relevant provisions on the payment of subscription monies for the incorporation of a company.

***Reduction of Share Capital***

A company may reduce its registered capital in accordance with the following procedures prescribed by the PRC Company Law:

(i) the company shall prepare a balance sheet and an inventory of assets;

(ii) the reduction of registered capital must be approved by shareholders at general meeting;

(iii) the company shall notify its creditors of the reduction in share capital within 10 days and publish an announcement of the reduction in newspapers within 30 days of the resolution approving the reduction being passed;

(iv) the creditors of the company may within the statutory time limit require the company to repay its debts or provide guarantees for covering the debts; and

(v) the company must apply to the relevant market regulatory and administration bureau for registration of the change in respect of the reduction in registered capital.

***Repurchase of Shares***

A company may not repurchase its own shares other than for one of the following purposes:

(i) reducing its registered capital;

(ii) merging with another company which holds its shares;

(iii) using shares for employee stock ownership plan or equity incentives;

(iv) acquiring its own shares at the request of its shareholders who vote in a shareholders' general meeting against a resolution regarding a merger or division;

(v) using shares for converting convertible corporate bonds issued by a listed company; and

(vi) protecting the corporate value and the rights and interests of shareholders by a listed company.

Where the company is required to purchase its own shares under any of the circumstances as mentioned in items (i) and (ii) above, it shall be subject to a resolution of the general meeting. Where the company is required to purchase its own shares under any of the circumstances as mentioned in items (iii), (v) and (vi) above, it shall be made as prescribed by the articles of association or under the authorization by the general meeting and approved by way of a resolution at the board meeting attended by more than two thirds of the directors of the company.

After the company purchases its own shares pursuant to the above provisions, it shall, under the circumstance as mentioned in item (i), cancel such purchased shares within ten days after the purchase; while under either circumstance as mentioned in items (ii) or (iv), transfer them or write them off within six months; while under any of the circumstances as mentioned in items (iii), (v) or (vi), the aggregate number of shares of the company held by itself shall not exceed 10% of its total shares in issue and the company shall transfer them or write them off within three years.

If a listed company repurchases its own shares, it shall perform its information disclosure obligation as required under the Securities Law of the People's Republic of China. If a listed company repurchases its own shares under the circumstances specified in items (iii), (v) or (vi) of the first paragraph above, the repurchase shall be conducted through an open and centralized trading method.

***Transfer of Shares***

Shares held by shareholders may be transferred in accordance with the relevant laws and regulations. A shareholder should effect a transfer of his shares on a stock exchange established in accordance with laws or by any other means as required by the State Council. Registered shares may be transferred after the shareholders endorse the back of the share certificates or in any other manner specified by the laws or administrative regulations. Following the transfer, the company shall enter the names and addresses of the transferees into its share register. No changes of registration in the share register described above shall be effected during a period of 20 days prior to convening a shareholders' general meeting or 5 days prior to the record date for the purpose of determining entitlements to dividend distributions, subject to any legal provisions on the registration of changes in the share register of listed companies stipulated otherwise. The transfer of bearer share certificates shall become effective upon the delivery of the certificates to the transferee by the shareholder. The Mandatory Provisions provide that changes due to share transfer should not be made to shareholder registry within 30 days prior to convening a shareholders' general meeting or within 5 days prior to the record date for the purpose of determining entitlements to dividend distributions.

Shares held by promoters may not be transferred within one year of the establishment of the company. Shares of the company issued prior to the public issue of shares may not be transferred within one year of the date of the company's listing on a stock exchange. Directors, supervisors and the senior management of a company shall declare to the company their shareholdings in it and any changes in such shareholdings. During their terms of office, they may transfer no more than 25% of the total number of shares they hold in the company every year. They shall not transfer the shares they hold within one year of the date of the company's listing on a stock exchange, nor within six months after they leave their positions in the company. The articles of association may set out other restrictive provisions in respect of the transfer of shares in the company held by its directors, supervisors and the senior management.

***Shareholders***

Under the PRC Company Law, the rights of shareholders include the rights:

(i) to receive a return on assets, participate in significant decision-making and select management personnel;

(ii) to petition the people's court to revoke any resolution passed at a shareholders' general meeting or a meeting of board of directors that has not been convened in compliance with the laws or the articles of association or whose voting has been conducted in an invalid manner, or any resolution the contents of which is in violation of the articles of association, provided that such petition shall be submitted within 60 days of the passing of such resolution;

(iii) to transfer the shares of the shareholders according to the applicable laws and regulations and the articles of association;

(iv) to attend or appoint a proxy to attend shareholders' general meetings and exercise the voting rights;

(v) to inspect the articles of association, share register, counterfoil of company debentures, minutes of shareholders' general meetings, board resolutions, resolutions of the supervisory board and financial and accounting reports and to make suggestions or inquiries in respect of the company's operations;

(vi) to receive dividends in respect of the number of shares held;

(vii) to receive residual properties of the company in proportion to their shareholdings upon the liquidation of the company; and

(viii) any other shareholders' rights provided for in the laws, administrative regulations, other normative documents and the articles of association.

The obligations of shareholders include the obligation to abide by the company's articles of association, to pay the subscription monies in respect of the shares subscribed for, to be liable for the company's debts and liabilities to the extent of the amount of subscription monies agreed to be paid in respect of the shares taken up by them and any other shareholder obligation specified in the articles of association.

***Shareholders' General Meetings***

The general meeting is the organ of authority of the company, which exercises its powers in accordance with the PRC Company Law. The general meeting may exercise its powers:

(i) to decide on the company's operational objectives and investment plans;

(ii) to elect and remove the directors and supervisors (not being representative(s) of employees) and to decide on the matters relating to the remuneration of directors and supervisors;

(iii) to review and approve the reports of the board of directors;

(iv) to review and approve the reports of the supervisory board or supervisors;

(v) to review and approve the company's annual financial budgets and final accounts;

(vi) to review and approve the company's profit distribution proposals and loss recovery proposals;

(vii) to decide on any increase or reduction of the company's registered capital;

(viii) to decide on the issue of corporate bonds;

(ix) to decide on merger, division, dissolution and liquidation of the company or change of its corporate form;

(x) to amend the company's articles of association; and

(xi) to exercise any other authority stipulated in the articles of association.

A shareholders' general meeting is required to be held once every year. An extraordinary general meeting is required to be held within two months of the occurrence of any of the following:

(i) the number of directors is less than the number stipulated by the laws or less than two-thirds of the number specified in the articles of association;

(ii) the outstanding losses of the company amounted to one-third of the company's total paid-in share capital;

(iii) shareholders individually or in aggregate holding 10% or more of the company's shares request that an extraordinary general meeting is convened;

(iv) the board deems necessary;

(v) the supervisory board so requests; or

(vi) any other circumstances as provided for in the articles of association.

A shareholders' general meeting shall be convened by the board of directors, and presided over by the chairman of the board of directors. In the event that the chairman is incapable of performing or is not performing his duties, the meeting shall be presided over by the vice chairman. In the event that the vice chairman is incapable of performing or is not performing his duties, a director nominated by half or more of the directors shall preside over the meeting. Where the board of directors is incapable of performing or is not performing its duties to convene the general meeting, the supervisory board shall convene and preside over such meeting in a timely manner. If the supervisory board fails to convene and preside over such meeting, shareholders individually or in aggregate holding 10% or more of the company's shares for 90 days or more consecutively may unilaterally convene and preside over such meeting.

In accordance with the PRC Company Law, a notice of the general meeting stating the date and venue of the meeting and the matters to be considered at the meeting shall be given to all shareholders 20 days before the meeting. A notice of extraordinary general meeting shall be given to all shareholders 15 days prior to the meeting. For the issuance of bearer share certificates, the time and venue of and matters to be considered at the meeting shall be announced 30 days before the meeting.

Under the PRC Company Law, a single shareholder who holds, or several shareholders who jointly hold, three percent or more of the shares of the company may submit an interim proposal in writing to the board of directors ten days before the general meeting is held. The board of directors shall, within two days upon receipt of the proposal, notify the other shareholders, and submit the said interim proposal to the general meeting for deliberation. The contents of the interim proposal shall fall within the scope of powers of the general meeting, and the proposal shall have a clear agenda and specific matters on which resolutions are to be made.

The general meeting shall not make resolutions on matters that are not clearly listed in the notices given to the shareholders.

If holders of bearer share certificates attend a general meeting, they shall have their stocks kept at the company from five days before the meeting is held till the conclusion of the meeting.

Shareholders present at a shareholders' general meeting have one vote for each share they hold, save that shares held by the company are not entitled to any voting rights. Resolutions of the general meeting must be passed by more than half of the voting rights held by shareholders present at the meeting, with the exception of matters relating to merger, division or dissolution of the company, increase or reduction of registered share capital, change of corporate form or amendments to the articles of association, which in each case must be passed by at least two-thirds of the voting rights held by the shareholders present at the meeting. Where the PRC Company Law and the articles of association provide that the transfer or acquisition of significant assets or the provision of external guarantees by the company must be approved by way of resolution of the general meeting, the directors shall convene a shareholders' general meeting promptly to vote on such matters. A shareholder may entrust a proxy to attend a shareholders' general meeting. The proxy shall submit a power of attorney issued by the shareholder to the company and shall exercise his voting rights within the authorization scope. An accumulative voting system may be adopted for the election of directors and supervisors at the general meeting pursuant to the provisions of the articles of association or a resolution of the general meeting. Under the accumulative voting system, each share shall be entitled to the number of votes equivalent to the number of directors or supervisors to be elected at the general meeting, and shareholders may consolidate their votes for one or more directors or supervisors when casting a vote.

Minutes shall be prepared in respect of matters considered at the general meeting and the presider and directors attending the meeting shall endorse such minutes by signature. The minutes shall be kept together with the shareholders' attendance register and the proxy forms.

According to the Mandatory Provisions, the increase or reduction of share capital, the issuance of shares of any class, warrants or other similar securities and bonds, the division, merger, dissolution and liquidation of the company, the amendments to the articles of association and any other matters, which, as resolved by way of an ordinary resolution of the general meeting, may have a material impact on the company and require adoption by way of a special resolution, must be approved through special resolutions by no less than two-thirds of the voting rights held by shareholders (including proxies) present at the meeting.

There is no specific provision in the PRC Company Law regarding the number of shareholders constituting a quorum in a shareholders' general meeting.

The Mandatory Provisions require a special resolution to be passed at the general meeting and the approval of the affected class shareholders at a class meeting to be held in the event of a variation or derogation of the class rights of a shareholder class. For this purpose, holders of domestic shares and H shares are deemed to be shareholders of different classes.

***Board***

A company shall have aboard, which shall consist of 5 to 19 members. Members of the board may include staff representatives, who shall be democratically elected by the company's staff at a staff representative assembly, general staff meeting or otherwise. The term of a director shall be stipulated in the articles of association, provided that no term of office shall last for more than three years. A director may serve consecutive terms if re-elected. A director shall continue to perform his/her duties as a director in accordance with the laws, administrative regulations and the articles of association until a duly reelected director takes office, if re-election is not conducted in a timely manner upon the expiry of his/her term of office or if the resignation of directors results in the number of directors being less than the quorum.

Under the PRC Company Law, the board of directors may exercise its powers:

(i) to convene shareholders' general meetings and report on its work to the shareholders' general meetings;

(ii) to implement the resolutions passed by the shareholders at the shareholders' general meetings;

(iii) to decide on the company's operational plans and investment proposals;

(iv) to formulate proposal for the company's annual financial budgets and final accounts;

(v) to formulate the company's profit distribution proposals and loss recovery proposals;

(vi) to formulate proposals for the increase or reduction of the company's registered capital and the issue of corporate bonds;

(vii) to formulate proposals for the merger, division or dissolution of the company or change of corporate form;

(viii) to decide on the setup of the company's internal management organs;

(ix) to appoint or dismiss the company's general manager and decide on his/her remuneration and, based on the general manager's recommendation, to appoint or dismiss any deputy general manager and financial officer of the company and to decide on their remunerations;

(x) to formulate the company's basic management system; and

(xi) to exercise any other authority stipulated in the articles of association.

Meetings of the board of directors shall be convened at least twice each year. Notices of meeting shall be given to all directors and supervisors 10 days before the meeting. Interim board meetings may be proposed to be convened by shareholders representing more than 10% of the voting rights, more than one-third of the directors or the supervisory board. The chairman shall convene the meeting within 10 days of receiving such proposal, and preside over the meeting. The board may otherwise determine the means and the period of notice for convening an interim board meeting. Meetings of the board of directors shall be held only if more than half of the directors are present. Resolutions of the board shall be passed by more than half of all directors. Each director shall have one vote for a resolution to be approved by the board. Directors shall attend board meetings in person. If a director is unable to attend for any reason, he/she may appoint another director to attend the meeting on his/her behalf by a written power of attorney specifying the scope of authorization that his/her representative has. The board of directors shall prepare minutes of resolutions considered at the meetings and the directors present at the meetings shall sign on such minutes.

If a resolution of the board of directors violates the laws, administrative regulations or the articles of association or resolutions of the general meeting, and as a result of which the company sustains serious losses, the directors participating in the resolution are liable to compensate the company. However, if it can be proved that a director expressly objected to the resolution when the resolution was voted on, and that such objection was recorded in the minutes of the meeting, such director shall be relieved from that liability.

Under the PRC Company Law, the following person may not serve as a director in a company:

(i) a person who is unable or has limited ability to undertake any civil liabilities;

(ii) a person who has been convicted of an offense of corruption, bribery, embezzlement, misappropriation of property or destruction of the socialist economic order, or who has been deprived of his political rights due to his/her crimes, in each case where less than five years have elapsed since the date of completion of the sentence;

(iii) a person who has been a former director, factory manager or manager of a company or an enterprise that has entered into in solvent liquidation and who was personally liable for the insolvency of such company or enterprise, where less than three years have elapsed since the date of the completion of the bankruptcy and liquidation of the company or enterprise;

(iv) a person who has been a legal representative of a company or an enterprise that has had its business license revoked due to violations of the law or has been ordered to close down by law and the person was personally responsible, where less than three years have elapsed since the date of such revocation; and

(v) a person who is liable for a relatively large amount of debts that are overdue.

Where a company elects or appoints a director to which any of the above circumstances applies, such election or appointment shall be null and void. A director to which any of the above circumstances applies during his/her term of office shall be released of his/her duties by the company.

Other circumstances under which a person is disqualified from acting as a director of a company are set out in the Mandatory Provisions.

The board shall appoint a chairman and may appoint a vice chairman.

The chairman and the vice chairman shall be elected with approval of more than half of all the directors. The chairman shall convene and preside over board meetings and review the implementation of board resolutions. The vice chairman shall assist the chairman to perform his/her duties. Where the chairman is incapable of performing or is not performing his/her duties, the duties shall be performed by the vice chairman. Where the vice chairman is incapable of performing or is not performing his/her duties, a director nominated by more than half of the directors shall perform his/her duties.

***Supervisory Board***

Under the PRC Company Law, a company shall have a supervisory board composed of not less than three members. The supervisory board consists of representatives of the shareholders and an appropriate proportion of representatives of the company's staff. The actual proportion shall be determined in the articles of association, provided that the proportion of representatives of the company's staff shall not be less than one-third. Representatives of the company's staff at the supervisory board shall be democratically elected by the company's staff at the staff representative assembly, general staff meeting or otherwise. The supervisory board shall appoint a chairman and may appoint a vice chairman. The chairman and the vice chairman of the supervisory board shall be elected by more than half of the supervisors.

According to the Reply of the Overseas Listing Department of CSRC and the Production System Department of the State Commission for Restructuring the Economic System on Opinions Concerning the Supplement and Amendment to Articles of Association by Companies to be Listed in Hong Kong (《中國證監會海外上市部、國家體改委生產體制司關於到香港上市公司對公司章程作補充修改的意見的函》), the chairman of the supervisory board shall be appointed by more than two-thirds of the supervisors.

The chairman of the supervisory board shall convene and preside over supervisory board meetings. Where the chairman of the supervisory board is incapable of performing or is not performing his/her duties, the vice chairman of the supervisory board shall convene and preside over supervisory board meetings. Where the vice chairman of the supervisory board is incapable of performing or is not performing his/her duties, a supervisor nominated by more than half of the supervisors shall convene and preside over supervisory board meetings. Directors and senior management shall not act concurrently as supervisors.

Each term of office of a supervisor is three years and he/she may serve consecutive terms if reelected. A supervisor shall continue to perform his/her duties as a supervisor in accordance with the laws, administrative regulations and the articles of association until a duly re-elected supervisor takes office, if re-election is not conducted in a timely manner upon the expiry of his/her term of office or if the resignation of supervisors results in the number of supervisors being less than the quorum.

The supervisory board may exercise its powers:

(i) to review the company's financial position;

(ii) to supervise the directors and senior management in their performance of their duties and to propose the removal of directors and senior management who have violated any laws, regulations, the articles of association or shareholders' resolutions;

(iii) when the acts of a director or senior management personnel are detrimental to the company's interests, to require the director and senior management to correct these acts;

(iv) to propose the convening of extraordinary shareholders' general meetings and to convene and preside over shareholders' general meetings when the board fails to perform the duty of convening and presiding over shareholders' general meetings under the PRC Company Law;

(v) to submit proposals to the shareholders' general meetings;

(vi) to bring actions against directors and senior management pursuant to the relevant provisions of the PRC Company Law; and

(vii) to exercise any other authority stipulated in the articles of association.

Supervisors may be present at board meetings and make inquiries or proposals in respect of the resolutions of the board. The supervisory board may investigate any irregularities identified in the operation of the company and, when necessary, may engage an accounting firm to assist its work at the cost of the company.

***Manager and Senior Management***

A company shall have a general manager who shall be appointed or removed by the board of directors. The general manager, who reports to the board of directors, may exercise his/her powers:

(i) to manage the production, operation and administration of the company and arrange for the implementation of the resolutions of the board of directors;

(ii) to arrange for the implementation of the company's annual business plans and investment proposals;

(iii) to formulate proposals for the establishment of the company's internal management organs;

(iv) to formulate the fundamental management system of the company;

(v) to formulate the company's specific rules and regulations;

(vi) to recommend the appointment or dismissal of any deputy manager and any financial officer of the company;

(vii) to appoint or dismiss management personnel (other than those required to be appointed or dismissed by the board of directors); and

(viii) to exercise any other authority granted by the board of directors.

Other provisions in the articles of association on the general manager's powers shall also be complied with. The general manager shall be present at meetings of the board of directors. However, the general manager shall have no voting rights at meetings of the board of directors unless he/she concurrently serves as a director.

According to the PRC Company Law, senior management refers to the general manager, deputy manager, financial officer, secretary to the board of a listed company and other personnel as stipulated in the articles of association.

***Duties of Directors, Supervisors, General Managers and Other Senior Management***

Directors, supervisors and senior management are required under the PRC Company Law to comply with the relevant laws, regulations and the articles of association, and carry out their duties in good faith.

Directors, supervisors and senior management are prohibited from accepting bribes or other unlawful income and from misappropriating the company's property. Directors and senior management are prohibited from:

(i) misappropriating company funds;

(ii) depositing company funds into accounts under their own names or the names of other individuals;

(iii) loaning company funds to others or providing guarantees in favor of others supported by company's property in violation of the articles of association or without approval of the general meeting or the board of directors;

(iv) entering into contracts or transactions with the company in violation of the articles of association or without approval of the general meeting or the board of directors;

(v) using their position to procure business opportunities for themselves or others that should have otherwise been available to the company or operating businesses similar to that of the company for their own benefits or on behalf of others without approval of the general meeting;

(vi) misappropriating the commissions paid by a third party for transactions conducted with the company;

(vii) unauthorized divulgence of confidential information of the company; and

(viii) other acts in violation of their duty of loyalty to the company.

Income generated by directors or senior management in violation of aforementioned shall be returned to the company.

A director, supervisor or senior management who contravenes any law, regulation or the company's articles of association in the performance of his/her duties resulting in any loss to the company shall be liable to the company for compensation.

Where a director, supervisor or senior management is required to attend a shareholders' general meeting, such director, supervisor or senior management shall attend the meeting and answer the inquiries from shareholders. Directors and senior management shall furnish all true information and materials to the supervisory board, or if a limited liability company has no supervisory board, supervisors, without impeding the discharge of duties by the supervisory board or supervisors.

Where a director or senior management contravenes any law, regulation or the company's articles of association in the performance of his/her duties resulting in any loss to the company, shareholder(s) holding individually or in aggregate no less than 1% of the company's shares consecutively for at least 180 days may request in writing that the supervisory board institute litigation at a people's court on its behalf. Where the supervisory board violates the laws or administrative regulations or the articles of association in the discharge of its duties resulting in any loss to the company, such shareholder(s) may request in writing that the board of directors institutes litigation at a people's court on its behalf. If the supervisory board or the board of directors refuses to institute litigation after receiving this written request from the shareholder(s), or fails to institute litigation within 30 days of the date of receiving the request, or in case of emergency where failure to institute litigation immediately will result in irrecoverable damage to the company's interests, such shareholder(s) shall have the power to institute litigation directly at a people's court in its own name for the company's benefit. For other parties who infringe the lawful interests of the company resulting in loss to the company, such shareholder(s) may institute litigation at a people's court in accordance with the procedure described above. Where a director or senior management contravenes any laws, administrative regulations or the articles of association in infringement of shareholders' interests, a shareholder may also institute litigation at a people's court.

The Special Regulations and the Mandatory Provisions provide that a company's directors, supervisors, general manager and other senior management shall have duty of loyalty to the company. They are required to faithfully perform their duties, to protect the interests of the company and not to use their positions in the company for their own benefits. The Mandatory Provisions contain detailed stipulations on these duties.

***Finance and Accounting***

A company shall establish its own financial and accounting systems according to the laws, administrative regulations and the regulations of the competent financial departments of the State Council. At the end of each financial year, a company shall prepare a financial report which shall be audited by an accounting firm in accordance with the laws. The financial and accounting reports shall be prepared in accordance with the laws, administrative regulations and the regulations of the financial departments of the State Council.

The company's financial reports shall be made available for shareholders' inspection at the company 20 days before the convening of an annual general meeting. A joint stock limited company that makes public stock offerings shall publish its financial reports.

When distributing each year's profits after taxation, the company shall set aside 10% of its profits after taxation for the company's statutory common reserve fund until the fund has reached 50% or more of the company's registered capital. When the company's statutory common reserve fund is not sufficient to make up for the company's losses for the previous years, the current year's profits shall first be used to make good the losses before any allocation is set aside for the statutory common reserve fund. After the company has made allocations to the statutory common reserve fund from its profits after taxation, it may, upon passing a resolution at a shareholders' general meeting, make further allocations from its profits after taxation to the discretionary common reserve fund. After the company has made good its losses and made allocations to its discretionary common reserve fund, the remaining profits after taxation shall be distributed in proportion to the number of shares held by the shareholders, except for those which are not distributed in a proportionate manner as provided by the articles of association.

Profits distributed to shareholders by a resolution of a shareholders' general meeting or the board of directors before losses have been made good and allocations have been made to the statutory common reserve fund in violation of the requirements described above must be returned to the company. The company shall not be entitled to any distribution of profits in respect of shares held by it.

The premium over the nominal value of the shares of the company in issue and other income as required by competent governmental department to be treated as the capital reserve fund shall be accounted for as the capital reserve fund. The common reserve fund of a company shall be applied to make good the company's losses, expand its business operations or increase its capital. The capital reserve fund, however, shall not be used to make good the company's losses. Upon the transfer of the statutory common reserve fund into capital, the balance of the fund shall not be less than 25% of the registered capital of the company before such transfer.

The company shall have no accounting books other than the statutory books. The company's assets shall not be deposited in any account opened under the name of any individual.

***Appointment and Retirement of Auditors***

Pursuant to the PRC Company Law, the appointment or dismissal of an accounting firm responsible for the company's auditing shall be determined by shareholders at a shareholders' general meeting or the board of directors in accordance with the articles of association. The accounting firm should be allowed to make representations when the general meeting or the board of directors conduct a vote on the dismissal of the accounting firm on their respective meetings. The company should provide true and complete accounting evidence, accounting books, financial and accounting reports and other accounting information to the engaged accounting firm without any refusal or withholding or falsification of information.

The Special Regulations require a company to engage an independent qualified accounting firm to audit the company's annual reports and to review and check other financial reports of the company. The accounting firm's term of office shall commence from the end of the shareholders' annual general meeting to the end of the next shareholders' annual general meeting.

***Profit Distribution***

According to the PRC Company Law, a company shall not distribute profits before losses are covered and the statutory common reserve fund is provided. The Special Regulations require that any dividend and other distribution to H shareholders shall be declared and calculated in RMB and paid in foreign currency. Under the Mandatory Provisions, a company shall make foreign currency payments to shareholders through receiving agents.

***Amendments to the Articles of Association***

Pursuant to PRC Company Law, the resolution of a shareholders' general meeting regarding any amendment to a company's articles of association requires affirmative votes by at least two-thirds of the votes held by shareholders attending the meeting. Pursuant to the Mandatory Provisions, the company may amend its articles of association according to the laws, administrative regulations and the articles of association. The amendment to articles of association involving content of the Mandatory Provisions will only be effective upon approval of the department in charge of company examination and approval and the securities regulatory department authorized by the State Council, while the amendment to articles of association involving matters of company registration shall be registered with the relevant authority in accordance with applicable laws.

***Dissolution and Liquidation***

A company shall be dissolved for any of the following reasons:

(i) the term of its operation set out in the articles of association has expired or other events of dissolution specified in the articles of association have occurred;

(ii) the shareholders have resolved at a shareholders' general meeting to dissolve the company;

(iii) the company is dissolved by reason of its merger or division;

(iv) the business license of the company is revoked or the company is ordered to close down or to be dissolved in accordance with the laws ; or

(v) the company is dissolved by a people's court in response to the request of shareholders holding shares that represent more than 10% of the voting rights of all shareholders of the company, on the grounds that the operation and management of the company has suffered serious difficulties that cannot be resolved through other means, rendering on going existence of the company a cause for significant losses to the shareholders.

In the event of paragraph (i) above, the company may carry on its existence by amending its articles of association. The amendments to the articles of association in accordance with the provisions described above shall require the approval of more than two-thirds of voting rights of shareholders attending a shareholders' general meeting.

Where the company is dissolved under the circumstances set forth in paragraph (i), (ii), (iv) or (v) above, it should establish a liquidation committee within 15 days of the date on which the dissolution matter occurs. The liquidation committee shall be composed of directors or any other person determined by a shareholders' general meeting. If a liquidation committee is not established within the prescribed period, the company's creditors may file an application with a people's court, requesting that the court appoint relevant personnel to form a liquidation committee to conduct the liquidation. The people's court should accept such application and form a liquidation committee to conduct liquidation in a timely manner.

The liquidation committee may exercise following powers during the liquidation:

(i) to dispose of the company's assets and to prepare a balance sheet and an inventory of assets;

(ii) to notify the company's creditors or publish a relevant announcements;

(iii) to deal with any outstanding business related to the liquidation;

(iv) to pay any outstanding tax together with any tax arising during the liquidation process;

(v) to settle the company's financial claims and liabilities;

(vi) to handle the company's remaining assets after its debts have been paid off; and

(vii) to represent the company in any civil procedures.

The liquidation committee shall notify the company's creditors within 10 days of its establishment, and publish an announcement in newspapers within 60 days. A creditor shall lodge his claim with the liquidation committee within 30 days of receipt of the notification or within 45 days of the date of the announcement if he has not received any notification. A creditor shall, in making his claim, state all matters relevant to his creditor's rights and furnish relevant evidence. The liquidation committee shall register such creditor's rights. The liquidation committee shall not make any settlement to creditors during the period of the claim.

Upon disposal of the company's property and preparation of the required balance sheet and inventory of assets, the liquidation committee shall draw up a liquidation plan and submit this plan to a shareholders' general meeting or a people's court for endorsement. The remaining assets of the company, after payment of liquidation expenses, employee wages, social insurance expenses and statutory compensation, outstanding taxes and the company's debts, shall be distributed to shareholders in proportion to shares held by them. The company shall continue to exist during the liquidation period, although it cannot engage in operating activities that are not related to the liquidation. The company's property shall not be distributed to shareholders before settlements are made in accordance with the requirements described above.

Upon liquidation of the company's property and preparation of the required balance sheet and inventory of assets, if the liquidation committee becomes aware that the company does not have sufficient assets to meet its liabilities, it must apply to a people's court for a declaration of bankruptcy in accordance with the laws. Following such declaration by the people's court, the liquidation committee shall hand over the administration of the liquidation to the people's court.

Upon completion of the liquidation, the liquidation committee shall submit a liquidation report to the shareholders' general meeting or a people's court for confirmation of its completion. Following such confirmation, the report shall be submitted to the company registration authority to cancel the company's registration, and an announcement of its termination shall be published. Members of the liquidation committee are required to perform their duties in good faith and in compliance with relevant laws. Members of the liquidation committee shall be prohibited from abusing their authority in accepting bribes or other unlawful income and from misappropriating the company's properties. Members of the liquidation committee are liable to indemnify the company and its creditors in respect of any loss arising from their willful or material default.

Liquidation of a company declared bankrupt according to laws shall be processed in accordance with the laws on corporate bankruptcy.

***Overseas Listing***

The shares of a company shall only be listed overseas after obtaining approval from CSRC, and the listing must be arranged in accordance with procedures specified by the State Council. Pursuant to the Special Regulations, a company may issue shares to overseas investors and list its shares overseas upon approval from CSRC. Subject to approval by CSRC of the company's plans to issue overseas-listed foreign invested shares and domestic shares, the board of directors of the company may make arrangement to implement such plans for such two kinds of shares to be issued respectively, within fifteen (15) months from the date of approval by CSRC.

***Loss of Share Certificates***

If the share certificate(s) in registered form is either stolen, lost or destroyed, a shareholder may, in accordance with the public notice procedures set out in the PRC Civil Procedure Law, apply to a people's court for a declaration that such certificate(s) will no longer be valid. After such declaration has been obtained, the shareholder may apply to the company for the issue of a replacement certificate(s).

A separate procedure regarding the loss of share certificates and H share certificates of the overseas listed foreign invested shareholders of the PRC is provided for in the Mandatory Provisions, details of which are set out in the articles of association.

***Merger and Division***

A merger agreement shall be signed by merging companies and the involved companies shall prepare their respective balance sheets and inventory of assets. The companies shall within 10 days of the date of passing the resolution approving the merger notify their respective creditors and publicly announce the merger within 30 days. A creditor may, within 30 days of receipt of the notification, or within 45 days of the date of the announcement if he has not received the notification, request the company to settle any outstanding debts or provide relevant guarantees. In case of a merger, the credits and debts of the merging parties shall be assumed by the surviving or the new company.

In case of a division, the company's assets shall be divided and a balance sheet and an inventory of assets shall be prepared. When a resolution regarding the company's division is approved, the company should notify all its creditors within 10 days of the date of passing such resolution and publicly announce the division in newspapers within 30 days. Unless an agreement in writing is reached with creditors in respect of the settlement of debts, the liabilities of the company which have accrued prior to such division shall be jointly borne by the separated companies.

Changes in the registration of the companies as a result of the merger or division shall be registered with the relevant market regulatory and administration authority.

In accordance with laws, cancelation of a company shall be registered when a company is dissolved and incorporation of a company shall be registered when a new company is incorporated.

## D. The PRC Securities Laws, Regulations and Regulatory Regimes

The PRC has promulgated a number of regulations that relate to the issuance and trading of our shares and disclosure of information. In October 1992, the State Council established the Securities Commission and CSRC. The Securities Commission is responsible for coordinating the drafting of securities regulations, formulating securities-related policies, planning the development of securities markets, directing, coordinating and supervising all securities-related institutions in the PRC and administering CSRC. CSRC is the regulatory arm of the Securities Commission and is responsible for the drafting of regulatory provisions governing securities markets, supervising securities companies, regulating public offerings of securities by PRC companies in the PRC or overseas, regulating the trading of securities, compiling securities-related statistics and undertaking relevant research and analysis. In April 1998, the State Council consolidated the aforementioned two departments and reformed CSRC.

On April 22, 1993, the State Council promulgated the Provisional Regulations Concerning the Issuance and Trading of Shares (《股票發行與交易管理暫行條例》) which govern the application and approval procedures for public offerings of equity securities, trading in equity securities, the acquisition of listed companies, deposit, clearing and transfer of listed equity securities, as well as the disclosure of information, investigation, penalties and dispute resolutions with respect to a listed company.

On December 25, 1995, the State Council promulgated the Regulations of the State Council Concerning Domestic Listed Foreign Shares of Joint Stock Limited Companies (《國務院關於股份有限公司境內上市外資股的規定》). These regulations principally govern the issuance, subscription, trading and declaration of dividends and other distributions of domestic listed foreign shares and disclosure of information of joint stock limited companies having domestic listed foreign shares.

The PRC Securities Law took effect on July 1, 1999 and was revised as of August 28, 2004, October 27, 2005, June 29, 2013, August 31, 2014 and December 28, 2019, respectively. It was the first national securities law in the PRC, and is divided into 14 chapters and 226 articles, regulating the issuance and trading of securities, takeovers of listed companies, securities exchanges, securities companies and the duties and responsibilities of the State Council's securities regulatory authorities. The PRC Securities Law comprehensively regulates activities in the PRC securities market. Article 224 of the PRC Securities Law provides that the overseas listing of shares of domestic enterprises must comply with the applicable requirements of the State Council. Currently, the issuance and trading of foreign issued securities (including shares) are principally governed by the rules and regulations promulgated by the State Council and CSRC.

**E. Arbitration and Enforcement of Arbitral Awards**

The Arbitration Law of the PRC (《中華人民共和國仲裁法》) ( the "PRC Arbitration Law") was enacted by the Standing Committee of the NPC on August 31, 1994, which became effective on September 1, 1995 and was amended on August 27, 2009 and September 1, 2017. It is applicable to economic disputes involving foreign parties where all parties have entered into a written agreement to resolve disputes by arbitration before an arbitration committee constituted in accordance with the PRC Arbitration Law. The PRC Arbitration Law provides that an arbitration committee may, before the promulgation of arbitration regulations by the PRC Arbitration Association, formulate interim arbitration rules in accordance with the PRC Arbitration Law and the PRC Civil Procedure Law. Where the parties have agreed to settle disputes by means of arbitration, a people's court will refuse to handle a legal proceeding initiated by one of the parties at such people's court, unless the arbitration agreement has lapsed.

The Listing Rules and the Mandatory Provisions require an arbitration clause to be included in the articles of association of a company listed in Hong Kong and, required by the Listing Rules, also in contracts between the company and each director or supervisor. Pursuant to such provision, whenever a dispute or claim arises from any right or obligation concerning the affairs of the company provided in the articles of association, the PRC Company Law or other relevant laws and administrative regulations among (i) the holders of overseas listed foreign shares and the company; (ii) the holders of overseas listed foreign shares and holders of domestic shares; or (iii) the holders of overseas listed foreign shares and the company's directors, supervisors or other management personnel, such parties shall be required to refer such dispute or claim to arbitration at either the CIETAC or the HKIAC. Disputes in respect of the definition of shareholder and disputes in relation to the company's shareholder registry need not be resolved by arbitration. If the party seeking arbitration elects to arbitrate the dispute or claim at the HKIAC, then either party may apply to have such arbitration conducted in Shenzhen in accordance with the securities arbitration rules of the HKIAC.

Under the PRC Arbitration Law, an arbitral award shall be final and binding on the parties involved in the arbitration. If any party fails to comply with the award, the other party to the award may apply to a people's court for its enforcement. A people's court may refuse to enforce an arbitral award made by an arbitration committee if there is any procedural irregularity (including, but not limiting to, irregularity in the composition of the arbitration committee, or the making of an award on matters beyond the scope of the arbitration or the arbitration committee having no jurisdiction).

Any party seeking to enforce an arbitral award of a foreign affairs arbitration organ of the PRC against a party who or whose property is not located within the PRC may apply to a foreign court with jurisdiction over the case for enforcement of the award. Likewise, an arbitral award made by a foreign arbitration body may be recognized and enforced by a PRC court in accordance with the principle of reciprocity or any international convention concluded or acceded to by the PRC.

The PRC acceded to the Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the "New York Convention") adopted on June 10, 1958 pursuant to a resolution of the Standing Committee of the NPC passed on December 2, 1986. The New York Convention provides that all arbitral awards made in a state which is a party to the New York Convention shall be recognized and enforced by other parties thereto subject to their rights to refuse enforcement under certain circumstances, including where the enforcement of the arbitral award is against the public policy of that state. At the time of the PRC's accession to the Convention, the Standing Committee of the NPC declared that (i) the PRC will only apply such convention on a mutual basis that the arbitral award made within the land of another allied country is being recognized and enforced; and (ii) the New York Convention will only be applied to disputes deemed under PRC law to be arising from contractual or non-contractual mercantile legal relations.

On June 18, 1999, the judicial committee of the Supreme People's Court considered and approved the Arrangement for Enforcement of Arbitral Awards between the PRC and the HKSAR (《關於內地與香港特別行政區相互執行仲裁裁決的安排》), which became effective on February 1, 2000. The arrangement allows awards made by PRC arbitral authorities to be enforced in Hong Kong and awards by Hong Kong arbitral authorities to be enforced in the PRC. If the court of the PRC or HKSAR is of the view that the enforcement of the arbitral awards will prejudice to social interests in the PRC or public policies of HKSAR following to, the abovementioned courts may refuse to enforce such arbitral awards.

## SUMMARY OF MATERIAL DIFFERENCES BETWEEN HONG KONG AND PRC COMPANY LAW

The Hong Kong law applicable to a company incorporated in Hong Kong is based on the Companies Ordinance and the Companies (Winding Up and Miscellaneous Provisions) Ordinance and is supplemented by common law and the rules of equity that are applicable to Hong Kong. As a joint stock limited company established in the PRC that is seeking a listing of shares on the Hong Kong Stock Exchange, we are governed by the PRC Company Law and all other rules and regulations promulgated pursuant to the PRC Company Law.

Set out below is a summary of certain material differences between Hong Kong Company Law applicable to a company incorporated in Hong Kong and the PRC Company Law applicable to a joint stock limited company incorporated under the PRC Company Law. This summary is, however, not intended to be an exhaustive comparison.

### Corporate Existence

Under Hong Kong company law, a company with share capital, shall be incorporated by the Registrar of Companies in Hong Kong and the company will acquire an independent corporate existence upon its incorporation. A company may be incorporated as a public company or a private company. Pursuant to the Companies Ordinance, the articles of association of a private company incorporated in Hong Kong shall contain provisions that restrict a member's right to transfer shares. A public company's articles of association do not contain such provisions.

Under the PRC Company Law, a joint stock limited company may be incorporated by promotion or subscription. The amended PRC Company Law which came into effect on October 26, 2018 has no provision on the minimum registered capital of a joint stock company, except that laws, administrative regulations and State Council's decisions have separate provisions on paid-in registered capital and the minimum registered capital, in which case the company should follow such provisions.

Hong Kong law does not prescribe any minimum capital requirement for a Hong Kong company.

**Share Capital**

Under Hong Kong law, the directors of a Hong Kong company may, with the prior approval of the shareholders if required, issue new shares of the company. The PRC Company Law provides that any increase in the registered capital of a company must be approved by the shareholders' general meeting and the relevant PRC governmental and regulatory authorities.

Under the PRC Securities Law, a company which is approved by the relevant securities regulatory authority to list its shares on a stock exchange must have a total share capital of not less than RMB30 million. There is no such restriction on companies incorporated in Hong Kong under Hong Kong law.

Under the PRC Company Law, the shares may be subscribed for in the form of money or nonmonetary assets (other than assets not entitled to be used as capital contributions under relevant laws and administrative regulations). For non-monetary assets to be used as capital contributions, appraisals and assets transfer procedures must be carried out to ensure no over-valuation or undervaluation of the assets. There is no such restriction on a Hong Kong company under Hong Kong law.

**Restrictions on Shareholding and Transfer of Shares**

Under PRC law, our Domestic Shares, which are denominated and subscribed for in Renminbi, may only be subscribed for and traded by the government or authorized government departments, PRC legal persons, natural persons, qualified foreign institutional investors, or eligible foreign strategic investors. Overseas listed shares, which are denominated in Renminbi and subscribed for in a currency other than Renminbi, may only be subscribed for, and traded by, investors from Hong Kong, Macau or Taiwan or any country and territory outside the PRC, or qualified domestic institutional investors. However, qualified institutional investors and individual investors may trade southbound trading and SH northbound trading (or SZ northbound trading) shares via Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect.

Under the PRC Company Law, a promoter of a joint stock limited company is not allowed to transfer the shares it holds for a period of one year after the date of establishment of the company. Shares in issue prior to the public offering cannot be transferred within one year from the listing date of the shares on a stock exchange. Shares in a joint stock limited liability company held by its directors, supervisors and senior management transferred each year during their term of office shall not exceed 25% of the total shares they held in the company, and the shares they held in the company cannot be transferred within one year from the listing date of the shares, and also cannot be transferred within half a year after such person has left office. The articles of association may set other restrictive requirements on the transfer of the company's shares held by its directors, supervisors and senior management. There are no such restrictions on shareholdings and transfers of shares under Hong Kong law apart from six-month lockup on the company's issuance of shares and the 12-month lockup on controlling shareholders' disposal of shares.

**Financial Assistance for Acquisition of Shares**

The PRC Company Law does not prohibit or restrict a joint stock limited company or its subsidiaries from providing financial assistance for the purpose of an acquisition of its own or its holding company's shares. However, the Mandatory Provisions contain certain restrictions on a company and its subsidiaries on providing such financial assistance similar to those under the Hong Kong Company Law.

**Variation of Class Rights**

The PRC Company Law has no special provision relating to variation of class rights. However, the PRC Company Law states that the State Council can promulgate separate regulations relating to other kinds of shares. The Mandatory Provisions contain elaborate provisions relating to the circumstances which are deemed to be variations of class rights and the following approval procedure required in respect thereof. These provisions have been incorporated in the Articles of Association, which are summarized in Appendix V — "Summary of Articles of Association" to this prospectus.

Under the Companies Ordinance, no rights attached to any class of shares can be varied except (i) with the approval of a special resolution of the holders of the relevant class at a separate meeting, (ii) with the consent in writing of the holders representing at least 75% of the total voting rights of holders of shares in the class in question, or (iii) if there are provisions in the articles of association relating to the variation of those rights, then in accordance with those provisions.

**Directors, Senior Management and Supervisors**

The PRC Company Law, unlike Hong Kong Company Law, does not contain any requirements relating to the declaration of directors' interests in material contracts, restrictions on companies providing certain benefits to directors and guarantees in respect of directors' liability and prohibitions against compensation for loss of office without shareholders' approval. The Mandatory Provisions, however, contain certain restrictions on interested contracts and specify the circumstances under which a director may receive compensation for loss of office.

**Supervisory Board**

Under the PRC Company Law, a joint stock limited company's directors and members of the senior management are subject to the supervision of supervisory board. There is no mandatory requirement for the establishment of supervisory board for a company incorporated in Hong Kong. The Mandatory Provisions provide that each supervisor owes a duty, in the exercise of his powers, to acting in good faith and honestly in what he considers to be in the best interests of the company and to exercising the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

**Derivative Action by Minority Shareholders**

Hong Kong law permits minority shareholders to initiate a derivative action on behalf of all shareholders against directors who have committed a breach of their fiduciary duties to the company if the directors control a majority of votes at a general meeting, thereby effectively preventing a company from suing the directors in breach of their duties in its own name. The PRC Company Law provides shareholders of a joint stock limited company with the right so that in the event where the directors and senior management violate their obligations and cause damages to a company, the shareholders individually or jointly holding more than 1% of the shares in the company for more than 180 consecutive days may request in writing the supervisory board to initiate proceedings in the people's court. In the event that the supervisory board violates their obligations and cause damages to company, the above said shareholders may send written request to the board of directors to initiate proceedings in the people's court. Upon receipt of such written request from the shareholders, if the supervisory board or the board of directors refuses to initiate such proceedings, or has not initiated proceedings within 30 days upon receipt of the request, or if under urgent situations, failure of initiating immediate proceeding may cause irremediable damages to the company, the above said shareholders shall, for the benefit of the company's interests, have the right to initiate proceedings directly to the people's court in their own name.

The Mandatory Provisions provide further remedies against the directors, supervisors and senior management who breach their duties to the company. In addition, as a condition to the listing of shares on the Hong Kong Stock Exchange, each director and supervisor (acting as agent for the shareholders) of a joint stock limited company is required to give an undertaking in favor of the company to allow minority shareholders to take action against directors and supervisors in default.

**Protection of Minorities**

Under Hong Kong law, a shareholder who complains that the affairs of a company incorporated in Hong Kong are conducted in a manner unfairly prejudicial to his interests may petition to the court to either appoint a receiver or manager over the property or business of the company or make an appropriate order regulating the affairs of the company. In addition, on the application of a specified number of members, the Financial Secretary of Hong Kong may appoint inspectors who are given extensive statutory powers to investigate the affairs of a company incorporated in Hong Kong. According to the PRC Company Law, in the event that the company encounters substantial difficulties in its operation and management and its continuance shall cause a significant loss in the interest of its shareholders, and where this cannot be resolved through other means, the shareholders who hold more than 10% of the total shareholders' voting rights of the company may present a petition to the People's Court for the dissolution of the company. The Mandatory Provisions, however, contain provisions that a controlling shareholder may not exercise its voting rights in a manner prejudicial to the interests of the entire or part of shareholders of a company to relieve a director or supervisor of his duty to act honestly in the best interests of the company or to approve the expropriation by a director or supervisor of the company's assets or the individual rights of other shareholders.

**Notice of Shareholders' General Meetings**

Under the PRC Company Law, notice of a shareholders' annual general meeting and an extraordinary shareholders meeting must be given to shareholders no less than 20 days and 15 days before the meeting, respectively. For a company incorporated in Hong Kong, the minimum period of notice is 21 days in the case of an annual general meeting and 14 days in other cases.

**Quorum for Shareholders' General Meetings**

Under the Companies Ordinance, the quorum for a general meeting must be at least two members unless the articles of association of the company otherwise provide. For companies with only one member, the quorum must be one member. The PRC Company Law does not specify any quorum requirement for a shareholders' general meeting. Nonetheless, under the Listing Rules, a class meeting proposed to be convened to consider any change or abolish of any right of class shareholders shall be attended by one-third or above of such class shareholders unless such class meeting is an adjourned class meeting.

**Voting**

Under the Companies Ordinance, an ordinary resolution is passed at the general meeting by more than half of the votes and a special resolution is passed at the general meeting by no less than 75% of such votes. Under the PRC Company Law, the passing of any resolution requires affirmative votes of shareholders representing more than half of the voting rights represented by the shareholders who attend the general meeting except in cases of resolutions regarding amendments to a company's articles of association, increase or decrease of registered capital, merger, division or dissolution, or change of corporation form, which require affirmative votes of shareholders representing more than two-thirds of the voting rights represented by the shareholders who attend the general meeting.

**Financial Disclosure**

Under the PRC Company Law, a joint stock limited company is required to make available at the company for inspection by shareholders its financial report 20 days before its shareholders' annual general meeting. In addition, a joint stock limited company of which the shares are publicly offered must publish its financial report. The Companies Ordinance requires a company incorporated in Hong Kong to send to every shareholder a copy of its financial statements, auditors' report and directors' report, which are to be presented before the company in its annual general meeting, not less than 21 days before such meeting. A joint stock limited liability company is required under the PRC law to prepare its financial statements in accordance with the PRC GAAP. The Mandatory Provisions require that a company must, in addition to preparing financial statements according to the PRC GAAP, have its financial statements prepared and audited in accordance with international accounting standards or the accounting standards of the place where the shares are listed and its financial statements must also contain a statement of the financial effect of the material differences (if any) from the financial statements prepared in accordance with the PRC GAAP. The lower of the after-tax profits of a specific fiscal year stated in the statements prepared based on the above-mentioned principles shall prevail in the allocation of such profits. The company shall publish its financial reports twice in each accounting year. An interim financial report shall be published within 60 days after the end of the first six months of each accounting year, while an annual financial report shall be published within 120 days after the end of each accounting year.

The Special Regulations require that there should not be any contradiction between the information disclosed within and outside the PRC and that, to the extent that there are differences in the information disclosed in accordance with the relevant PRC and overseas laws, regulations and requirements of the relevant stock exchanges, such differences should also be disclosed simultaneously.

**Information on Directors and Shareholders**

The PRC Company Law gives shareholders the right to inspect the company's articles of association, minutes of the shareholders' general meetings, share register, counterfoil of company debentures, resolutions of board meetings, resolutions of meetings of the supervisory board and financial and accounting reports. Under the articles of association, shareholders have the right to inspect and copy (at reasonable charges) certain information on shareholders and directors which is similar to the shareholders' rights of Hong Kong companies under Hong Kong law.

**Receiving Agent**

Under the PRC Company Law and Hong Kong law, dividends once declared are debts payable to shareholders. The limitation period for debt recovery action under Hong Kong law is six years, while under the PRC law this limitation period is three years. The Mandatory Provisions require the relevant company to appoint a trust company registered under the Hong Kong Trustee Ordinance (Chapter 29 of the Laws of Hong Kong) as a receiving agent to receive on behalf of holders of shares dividends declared and all other monies owed by the company in respect of its shares.

**Corporate Reorganization**

Corporate reorganization involving a company incorporated in Hong Kong may be effected in a number of ways, such as a transfer of the whole or part of the business or property of the company in the course of voluntary winding up to another company pursuant to Section 237 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance or a compromise or arrangement between the company and its creditors or between the company and its shareholders under Division 2 of Part 13 of the Companies Ordinance, which requires the sanction of the court. Under PRC law, merger, division, dissolution or change the form of a joint stock limited liability company has to be approved by shareholders in general meeting.

**Dispute Arbitration**

In Hong Kong, disputes between shareholders on the one hand, and a company incorporated in Hong Kong or its directors on the other hand, may be resolved through legal proceedings in the courts. The Mandatory Provisions provide that such disputes should be submitted to arbitration at either the HKIAC or the CIETAC, at the claimant's choice.

**Deductions for Statutory Common Reserve Fund**

Under the PRC Company Law, when distributing the profit after tax of the year, a joint stock limited liability company is required to set aside certain prescribed percentages of its after tax profits for the statutory common reserve fund. There are no corresponding provisions under Hong Kong law.

**Remedies of the Company**

Under the PRC Company Law, if a director, supervisor or senior management in carrying out his duties infringes any law, administrative regulation or the articles of association of a company, which results in damage to the company, that director, supervisor or senior management should be responsible to the company for such damages. In addition, the Listing Rules require listed companies' articles of association to provide for remedies of the company similar to those available under Hong Kong law (including rescission of the relevant contract and recovery of profits from a director, supervisor or senior management).

**Dividends**

The company has the power in certain circumstances to withhold, and pay to the relevant tax authorities, any tax payable under PRC law on any dividends or other distributions payable to a shareholder. Under Hong Kong law, the limitation period for an action to recover a debt (including the recovery of dividends) is six years, whereas under PRC laws, the relevant limitation period is three years. The company must not exercise its powers to forfeit any unclaimed dividend in respect of shares until after the expiry of the applicable limitation period.

**Fiduciary Duties**

In Hong Kong, there is the common law concept of the fiduciary duty of directors. Under the PRC Company Law, directors, supervisors and senior management should be loyal and diligent. Under the Mandatory Provisions, directors, supervisors and senior management are not permitted, without the knowledge and approval of the shareholders' general meeting, to engage in any activities which compete with or damage the interests of their company.

**Closure of Register of Shareholders**

The Companies Ordinance requires that the register of shareholders of a company must not generally be closed for the registration of transfers of shares for more than 30 days (extendable to 60 days under certain circumstances) in a year, whereas, as required by the PRC Company Law and the Mandatory Provisions, share transfers shall not be registered within 30 days before the date of a shareholders' general meeting or within five days before the base date set for the purpose of distribution of dividends.

**HONG KONG LISTING RULES**

The Listing Rules provide additional requirements which apply to us as an issuer incorporated in the PRC as a joint stock limited company and seeking a primary listing or whose primary listing is on the Hong Kong Stock Exchange. Set out below is a summary of the principal provisions containing the additional requirements which apply to us.

**Compliance Advisor**

A company seeking listing on the Hong Kong Stock Exchange is required to appoint a compliance advisor acceptable to the Hong Kong Stock Exchange for the period from its listing date up to the date of the publication of its financial results for the first full financial year commencing after the listing date. The compliance advisor should provide professional advice on continuous compliance with the Listing Rules and all other applicable laws and regulations, and to act at all times, in addition to its two authorized representatives, as the principal channel of communication with the Hong Kong Stock Exchange. The appointment of the compliance advisor may not be terminated until a replacement acceptable to the Hong Kong Stock Exchange has been appointed.

If the Hong Kong Stock Exchange is not satisfied that the compliance advisor is fulfilling its responsibilities adequately, it may require the company to terminate the compliance advisor's appointment and appoint a replacement.

The compliance advisor must keep the company informed on a timely basis of changes in the Listing Rules and any new or amended law, regulation or code in Hong Kong applicable to the company. It must act as the company's principal channel of communication with the Hong Kong Stock Exchange if the authorized representatives of the company are expected to be frequently outside Hong Kong.

**Accountant's Report**

The accountant's report must normally be drawn up in conformity with: (a) HKFRS; or (b) IFRS; or (c) China Accounting Standards for Business Enterprises ("CASBE") in the case of a PRC issuer that has adopted CASBE for the preparation of its annual financial statements.

**Process Agent**

A listed company is required to appoint and maintain a person authorized to accept service of process and notices on its behalf in Hong Kong throughout the period during which its securities are listed on the Hong Kong Stock Exchange and must notify the Hong Kong Stock Exchange of his, her or its appointment, the termination of his, her or its appointment and his, her or its contact particulars.

**Public Shareholding**

If at any time there are existing issued securities of a PRC issuer other than foreign shares which are listed on the Hong Kong Stock Exchange, the Listing Rules require that the aggregate amount of H shares and other securities held by the public must constitute not less than 25% of the PRC issuer's issued share capital and that the class of securities for which listing is sought must not be less than 15% of the issuer's total issued share capital, having an expected market capitalization at the time of listing of not less than HK$125 million. The Hong Kong Stock Exchange may, at its discretion, accept a lower percentage of between 15% and 25% if the issuer is expected to have a market capitalization at the time of listing of more than HK$10 billion.

**Independent Non-Executive Directors and Supervisors**

Independent non-executive directors of a PRC issuer are required to demonstrate an acceptable standard of competence and adequate commercial or professional expertise to ensure that the interests of the overall shareholders of the listed company will be adequately represented. Supervisors must have the character, expertise and integrity and be able to demonstrate the standard of competence commensurate with their position as supervisors.

**Restrictions on Repurchase of Securities**

Subject to governmental approvals and the articles of association of the company, a listed company may repurchase its own shares on the Hong Kong Stock Exchange in accordance with the provisions of the Listing Rules. Approval by way of a special resolution of the holders of class shares at separate class meetings conducted in accordance with the articles of association is required for share repurchases. In seeking approvals, a listed company is required to provide information on any proposed or actual purchases of all or any of its equity securities, whether or not listed or traded on the Hong Kong Stock Exchange. The director must also state the consequences (if any) of any purchases which will arise under either or both of the Codes on Takeovers and Mergers and Share Buy-backs promulgated by the SFC and /or any similar PRC law to the best of directors' knowledge. Any general mandate given to directors to repurchase shares must not exceed 10% of the total number of its issued shares.

**Redeemable Shares**

A listed company must not issue any redeemable shares unless the Hong Kong Stock Exchange is satisfied that the relative rights of its shareholders are adequately protected.

**Pre-emptive Rights**

Except in the circumstances mentioned below, directors are required to obtain approval by way of a special resolution of shareholders at general meeting, and the approvals by way of special resolutions of the holders of class shares (each being otherwise entitled to vote at general meetings) at separate class meetings conducted in accordance with and as required by the articles of association, prior to authorizing, allotting, issuing or granting shares or securities convertible into shares, options, warrants or similar rights to subscribe for any shares or convertible securities.

No such approval will be required under the Listing Rules to the extent that (i) the existing shareholders have by special resolution in general meeting given a mandate to the board of directors, either unconditionally or subject to such terms and conditions as may be specified in the resolution, to authorize, allot or issue, either separately or concurrently once every 12 months, not more than 20% of each of the existing issued domestic shares and H shares as of the date of the passing of the relevant special resolution, or (ii) such shares are issued as part of the Company's plan at the time of its establishment to issue domestic shares and H shares and such plan is implemented within 15 months from the date of approval by the securities regulatory authority of the State Council.

**Supervisors**

A company listed or seeking a listing on the Hong Kong Stock Exchange is required to adopt rules governing dealings by the supervisors in securities of our Bank in terms no less exacting than those of the Model Code (set out in Appendix 10 to the Listing Rules) issued by the Hong Kong Stock Exchange.

A PRC issuer is required to obtain the approval of its shareholders at a general meeting (at which the relevant supervisor and his associates must abstain from voting on the matter) prior to the company or any of its subsidiaries entering into a service contract of the following nature with a supervisor or proposed supervisor of the listed company or any of its subsidiaries: (i) the contract with the term exceeding three years; or (ii) the contract expressly requiring the company (or its subsidiaries) to give more than one year's notice or to pay compensation or make other payments equivalent to the remuneration of more than one year in order for it to terminate the contract.

The nomination and remuneration committee of the listed company or an independent board committee must form a view in respect of service contracts that require shareholders' approval and advise shareholders (other than shareholders with a material interest in the service contracts and their associates) as to whether the terms are fair and reasonable, advise whether such contracts are in the interests of the listed company and its shareholders as a whole and advise shareholders on how to vote.

**Amendment to Articles of Association**

A PRC issuer may not permit or cause any amendment to be made to its articles of association which would contravene the PRC Company Law, the Mandatory Provisions and the Listing Rules.

**Documents for Inspection**

A PRC issuer is required to make available at a place in Hong Kong for inspection by the public and shareholders free of charge, and for copying by its shareholders at reasonable charges of the following:

- a complete duplicate register of shareholders;
- a report showing the state of its issued share capital;
- its latest audited financial statements and the reports of the directors, auditors and supervisors, if any, thereon;
- special resolutions;
- reports showing the number and nominal value of securities repurchased by it since the end of the last financial year, the aggregate amount paid for such securities and the maximum and minimum prices paid in respect of each class of securities repurchased (with a breakdown divided by class shares);
- copy of the latest annual return filed with the SAMR or other competent PRC authority; and
- for shareholders only, copies of minutes of shareholders' general meetings.

**Receiving Agents**

Under Hong Kong law, a PRC issuer is required to appoint one or more receiving agents in Hong Kong and pay to such agent(s) dividends declared and other monies owed in respect of the H shares. Such monies will be held, pending payment, in trust for the holders of such H shares.

**Statements in Share Certificates**

A PRC issuer is required to ensure that all of its listing documents and share certificates include the statements stipulated below and to instruct and cause each of its share registrars not to register the subscription, purchase or transfer of any of its shares in the name of any particular holder unless and until such holder delivers to the share registrar a signed form in respect of such shares bearing statements to the following effect, that the acquirer of shares:

- agrees with the company and each shareholder, and the Company agrees with each shareholder, to observe and comply with the PRC Company Law, the Special Regulations and its articles of association;

- agrees with the company, each shareholder, director, supervisor, manager and other senior management and the Company (acting both for the company and for each director, supervisor, manager and other senior management) agrees with each shareholder to refer all differences and claims arising from any rights or obligations conferred or imposed by the articles of association, the PRC Company Law or other relevant laws and administrative regulations concerning its affairs to arbitration in accordance with the articles of association. Any reference to arbitration shall be deemed to authorize the arbitration tribunal to conduct hearings in open session and to publish its award, and such arbitration shall be final and conclusive;

- agrees with the company and each shareholder that shares are freely transferable by the holder thereof; and

- authorizes the company to enter into a contract on his behalf with each director and senior management whereby such directors and senior management undertake to observe and fulfill their obligations to shareholders as stipulated in the articles of association.

**Legal Compliance**

A PRC issuer is required to observe and comply with the PRC Company Law, the Special Regulations and its articles of association.

**Contract between the PRC Issuer and Directors, Senior Management and Supervisors**

A PRC issuer is required to enter into a contract in writing with every director and senior management containing at least the following provisions:

- an undertaking by the director or senior management to the Company to observe and comply with the PRC Company Law, the Special Regulations, its articles of association, the Codes on Takeovers and Mergers and Share Buy-backs and an agreement that it must have the remedies provided in its articles of association, and neither the contract nor his office is capable of assignment;

- an undertaking to the Company by the director or senior management acting as agent for each shareholder to observe and comply with his obligations to the shareholders as stipulated in the articles of association; and

- an arbitration clause which provides that whenever any differences or claims arise from any rights or obligations conferred or imposed by the contract, the articles of association, or the PRC Company Law or other relevant law and administrative regulations concerning affairs among us and the directors or senior management and among a holder of H shares and the directors or senior management, such differences or claims will be referred to arbitration at either the CIETAC in accordance with its rules or the HKIAC in accordance with its Securities Arbitration Rules, at the election of the claimant and that once a claimant refers a dispute or claim to arbitration, the other party shall submit to the arbitration institution elected by the claimant. Such arbitration will be final and conclusive. If the party seeking arbitration elects to arbitrate the dispute or claim at HKIAC, then either party may apply to have such arbitration conducted in Shenzhen, according to the Securities Arbitration Rules of the HKIAC. PRC laws shall govern the arbitration of disputes or claims referred to above, unless otherwise provided by laws or administrative regulations. The award of the arbitration institution is final and shall be binding on the parties thereto. Disputes over qualification of shareholder and over the share register do not have to be resolved through arbitration.

A PRC issuer is also required to enter into a contract in writing with every supervisor containing statements in substantially the same terms.

**Subsequent Listing**

A PRC issuer must not apply for the listing of its H shares on a PRC stock exchange unless the Hong Kong Stock Exchange is satisfied that the relative rights of the holders of its H shares are adequately protected.

**English Translation**

All notices or other documents required under the Listing Rules to be sent by a PRC issuer to the Hong Kong Stock Exchange or to holders of the H shares are required to be in English, or accompanied by a certified English translation.

**General**

If any change in the PRC laws or market practices materially alters the validity or accuracy of any basis upon which the additional requirements have been prepared, the Hong Kong Stock Exchange may impose additional requirements or make listing of H shares by a PRC issuer subject to special conditions as the Hong Kong Stock Exchange may consider appropriate. Whether or not any such changes in the PRC laws or market practices occur, the Hong Kong Stock Exchange retains its general power under the Listing Rules to impose additional requirements and make special conditions in respect of any company's listing.

**OTHER LEGAL AND REGULATORY PROVISIONS**

Upon the listing on the Hong Kong Stock Exchange, the provisions of the SFO, the Codes on Takeovers and Mergers and Share Buy-backs and such other relevant ordinances and regulations will apply to a PRC issuer.

## SECURITIES ARBITRATION RULES

The Securities Arbitration Rules of the HKIAC contain provisions allowing, upon application by any party, an arbitral tribunal to conduct a hearing in Shenzhen for cases involving the affairs of companies incorporated in the PRC and listed on the Hong Kong Stock Exchange so that PRC parties and witnesses may attend. Where any party applies for a hearing to take place in Shenzhen, the tribunal shall, where satisfied that such application is based on bona fide grounds, order the hearing to take place in Shenzhen conditional upon all parties, including witnesses and the arbitrators, being permitted to enter Shenzhen for the purpose of the hearing. Where a party, other than a PRC party, or any witnesses or any arbitrator is not permitted to enter Shenzhen, then the tribunal shall order that the hearing be conducted in any practicable manner, including the use of electronic media. For the purpose of the Securities Arbitration Rules, a PRC party means a party domiciled in the PRC other than the territories of Hong Kong, Macau and Taiwan.

Any person wishing to have detailed advice on PRC laws or the laws of any jurisdiction is recommended to seek independent legal advice.

Set out below is a summary of the principal provisions of the Articles of the Bank for reference of investors.

As the information contained below is a summary, it may not contain all the information that may be important to potential investors. Copies of the full English and Chinese texts of the Articles are available for inspection as mentioned in "Appendix VIII – Documents Delivered to the Registrar of Companies and Available for Inspection".

The Articles were adopted by Shareholders at the Shareholders' general meeting held on April 25, 2019 and were approved by Dongguan branch of CBIRC on June 16, 2020. The Articles shall be effective from the date on which the H Shares are listed on the Hong Kong Stock Exchange.

## DIRECTORS AND OTHER SENIOR MANAGEMENT

### Power to Allot and Issue Shares

There is no provision in the Articles empowering the Directors to allot and issue shares.

The increase in capital of our Bank shall be approved by a special resolution at a Shareholders' general meeting.

### Power to Dispose of the Assets of Our Bank or any Subsidiary

The Board shall not dispose of or agree to the disposal of fixed assets without prior approval of a Shareholders' general meeting if the aggregate of the expected value of the fixed assets to be disposed of and the value of the fixed assets which had been disposed of within four (4) months immediately preceding such disposal exceeds 33% of the fixed assets value shown in the latest balance sheet reviewed at a Shareholders' general meeting. The disposal of fixed assets referred to in this paragraph includes the transfer of interests of assets but excludes the provision of fixed assets as pledges of guarantees.

## EMOLUMENTS AND COMPENSATION FOR LOSS OF OFFICE

Subject to prior approval by a Shareholders' general meeting, the Bank shall enter into written contracts with the Directors and Supervisors regarding their remuneration, including:

(a) remuneration for their positions as Directors, Supervisors or senior management of the Bank;

(b) remuneration for their positions as directors, supervisors or senior management of the subsidiaries of the Bank;

(c) remuneration for the provision of other services in relation to the management of our Bank and our subsidiaries;

(d) compensation to Directors or Supervisors for loss of their office or retirement.

No Directors or Supervisors shall initiate litigation against our Bank for benefits that he/she is entitled under the forgoing matters other than in accordance with the aforementioned contract.

The remuneration contracts between the Bank and its Directors or Supervisors shall stipulate that if the Bank is acquired, the Directors and Supervisors of the Bank shall, subject to prior approval by a Shareholders' general meeting, be entitled to compensation or other payments for loss of their positions or retirement. The "acquisition of the Bank" shall refer to one of the following circumstances:

(a) a takeover offer by any person to all Shareholders;

(b) a takeover offer by any person, with the intent of the offeror to become a controlling Shareholder.

If any Director or Supervisor fails to comply with this clause, the funds received by him shall be distributed to the persons who have accepted the offer and sold their shares. The Director or Supervisor shall bear the expenses arising from the distribution of such amounts proportionally, and such expenses shall not be deducted from the amounts.

**LOANS TO DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT**

The Bank shall not, directly or indirectly, provide any loan or loan guarantee to the Directors, Supervisors, President and senior management of the Bank and its parent company and their connected persons.

The preceding provision shall not apply in the following circumstances:

(a) provision of loans or loan guarantees by the Bank to its subsidiaries;

(b) provision of loans, loan guarantees or other funds by the Bank to Directors, Supervisors, President and senior management of the Bank pursuant to their employment contracts approved by a Shareholders' general meeting for expenses incurred in the interests of the Bank or in performing their duties for the Bank;

(c) provision of loans and loan guarantees by the Bank to Directors, Supervisors, President and senior management of the Bank and their connected persons in the normal course of business of the Bank, provided that the loans and loan guarantees are provided on normal commercial terms.

If the Bank provides a loan in breach of the provisions above, the person who has received the loan or the borrower shall repay it immediately regardless of the terms of the loan.

The provision of loan guarantee in violation of sub-paragraph (1) shall not be enforced except:

(a) the lender is not informed when he provides the loan to the connected persons of Directors, Supervisors and senior management;

(b) the collaterals provided have been legally sold by the lender to a good faith purchaser.

The "guarantees" referred in the Articles shall include liabilities assumed or properties provided by the guarantor to guarantee the performance of obligations by the obligor.

**FINANCIAL ASSISTANCE FOR ACQUISITION OF SHARES IN OUR BANK**

The Bank (including its branches and sub-branches) or its subsidiaries shall never offer any financial assistance by any means to purchasers or prospective purchasers of Shares. Such purchasers include persons who have directly or indirectly assumed obligations as a result of purchasing our Shares.

The Bank (including its branches and sub-branches) or its subsidiaries shall never offer any financial assistance by any means in order to reduce or relieve the obligations of the aforesaid obligators.

The followings are not prohibited by the Articles except for those prohibited by the relevant laws, administrative regulations, rules or the securities rules of the place where the Shares of the Bank are listed:

(a) the financial assistance provided by the Bank is either genuinely for the interests of the Bank and the main purpose of the financial assistance is not to purchase Shares of the Bank, or the financial assistance is an incidental part of a plan of the Bank;

(b) the lawful distribution of the assets of the Banks in the form of dividends;

(c) the distribution of dividends in the form of Shares;

(d) the reduction of registered capital, repurchase of Shares and adjustment of shareholding structure in accordance with the Articles of Association;

(e) the provision of loan by the Bank within its scope of business and in the ordinary course of business (provided that this does not lead to a reduction in the net assets of the Bank or that, if the net assets are so reduced, the financial assistance is taken from the distributable profits of the Bank);

(f) the provision of funds by the Bank to an employee shareholding scheme (provided that this does not lead to a reduction in the net assets of the Bank or that, if the net assets are so reduced, the financial assistance is taken from the distributable profits of the Bank).

The laws, administrative regulations, rules and the securities rules of the place where the Shares of the Bank are listed in respect of financial activities involved in share repurchase shall prevail.

"Financial assistance" referred to in the Articles shall include, without limitation, the following meanings:

(a) gifts;

(b) guarantee (including the assumption of liability by the guarantor or the provision of assets by the guarantor to secure the performance of obligations by the obligor), indemnity (other than an indemnity in respect of the neglect or default of the Bank) or the release or waiver of any rights;

(c) provision of loans or entering into any agreement under which the obligations of the Bank are to be fulfilled before the obligations of another party, and a change in the parties to, or the novation of, or the assignment of rights arising under such loans or agreement;

(d) any other form of financial assistance given by the Bank such that the Bank will be insolvent, have no net assets, or have its net assets be reduced significantly.

The "obligations" referred to in the Articles shall include the obligations of an obligor arisen by entering into an agreement or arrangement (whether or not the agreement or arrangement is enforceable, or whether or not such obligations are assumed by the obligor individually or jointly with any other person) or any obligations resulting from changes in the financial condition of the obligor.

**DISCLOSURE OF INTERESTS IN CONTRACTS WITH OUR BANK**

Our Directors and their connected persons (as defined under the Listing Rules), Supervisors and senior management of the Bank having any direct or indirect material interests in any existing or proposed contracts, transactions or arrangements (except the employment contracts between the Bank and its Directors, Supervisors and senior management), regardless of whether such interests are usually subject to the approval or consent of the Board, such persons shall disclose the nature and extent of the interests to the Board as soon as possible.

Unless the Directors, Supervisors and senior management of the Bank having interests as aforesaid have disclosed their interests to the Board in accordance with the preceding clause, and the Board has approved the matter without counting the interested persons into the quorum and without their participation in the vote, the Bank shall have the right to rescind such contracts, transactions or arrangements, except in circumstances where the counterparty is acting in good faith and unaware that the Directors, Supervisors and senior management are in breach of their obligations.

If the connected persons of a Director, Supervisor and senior management of the Bank has any conflict of interests with any contracts, transactions or arrangements, the Director, Supervisor and senior management shall be deemed to have a conflict of interests as well.

Before the Bank considers entering into contracts, transactions or arrangements for the first time, and if the interested Directors, Supervisors and senior management of the Bank have provided a written notice to the Board stating that they have interests in the contracts, transactions or arrangements proposed to be entered into by the Bank for the reasons set out in the notice, the Director, Supervisor and senior management concerned shall be deemed to have made the disclosure as required to the extent as set out in the notice.

**REMUNERATION**

The remuneration of Directors shall be approved by Shareholders' general meeting. Please see "— Emoluments and Compensation for Loss of Office" above.

**APPOINTMENT AND REMOVAL**

The Directors of the Bank shall be natural persons and are not required to hold and shares in the Bank as Directors. The qualifications of Directors shall be verified by the banking regulatory authorities under the State

Council. Directors shall be elected or removed by Shareholders at Shareholders' general meeting. The term of office of a Director shall be three years. A Director may be re-elected and re-appointed upon expiry of his/her term of office. A Director shall not be dismissed without any justified reason by the Shareholders' general meeting before the expiry of his/her term of office.

The Nomination and Remuneration Committee of the Board, Shareholders individually or jointly holding not less than 1% of the total shares of the Bank in issue with voting rights can nominate candidates for independent Directors to the Board. The term of office of an independent Director shall be three years. The term of office of independent Directors shall not be more than six years on an accumulative basis.

The Board shall have 18 Directors, including a chairman of the Board. The Board may have vice chairman. The number of independent Directors shall not be less than one third of the total number of Directors. The chairman and vice chairman of the Board shall be elected and removed by simple majority of all Directors.

The Chairman and President of the Bank shall be acted by different persons. The Chairman and Vice Chairman shall not be acted by the legal representative of controlling shareholders or major officers-in-charge.

No person shall hold the position of Director, Supervisor, President or senior management of the Bank in one of the following circumstances:

(a) a person without or with limited capacity for civil conduct;

(b) a person who has been penalized or sentenced due to corruption, bribery, embezzlement, appropriation of property or the disruption of the social economic order, or deprivation of political rights for the crimes committed was carried out;

(c) a Director, general manager or manager of bankrupt and liquidated companies or enterprises whereby such person was personally liable for the bankruptcy;

(d) a legal representative of a company or a firm which has had its business license revoked and the business of such company or firm was compulsorily closed down due to a violation of laws in which such person was personally liable;

(e) a person having large amounts of debts due and outstanding;

(f) a person under investigation by judicial authorities for suspected violations of criminal law;

(g) a person banned from holding leadership positions by laws and administrative regulations;

(h) a non-natural person;

(i) a person ruled by competent authorities as having violated the provisions of securities laws and regulations involving fraudulent or dishonest acts and less than five (5) years have elapsed since the ruling;

(j) a person having criminal records of deliberate or material misconduct;

(k) a person who had served in a leading position in a company or a firm which was involved in illegal activities or had suffered material loss for which such person had personal or direct responsibility;

(l) a person who acts against public morality resulting in serious consequences;

(m) a person who had violated professional ethics or conducts or had major default causing serious loss or consequences;

(n) a person who had instructed or participated in the resistance of a firm being served to regulatory supervision or investigation;

(o) a person banned from holding the position of director or senior management or had been punished by regulatory authorities or financial management department for more than twice;

(p) a person who is not qualified for his position or seeking approval for qualification through irregular means;

(q) a public servant and a person who is prohibited from serving in a company by the laws, regulations, regulatory rules or the rules of the securities regulatory authority in the place where securities of the Bank are listed;

(r) a person who is prohibited from trading in securities market by China Securities Regulatory Commission; and

(s) any other persons prohibited from acting as Director, Supervisor, President or senior management of the Bank by the laws, regulations, regulatory rules and the Articles of the Bank.

The election, appointment or employment of a Director, Supervisor or senior management in violation of these clauses shall be invalid and the Bank shall terminate a Director, Supervisor or senior management in circumstances mentioned in this clause.

**BORROWING POWERS**

The Articles of Association of the Bank do not specifically provide for the manner in which borrowing powers may be exercised or any specific provision in respect of the manner in which such borrowing powers may be amended, except for:

(a) provision which authorizes the Board of Directors to formulate proposals for the issuance of bonds and other securities and public listing plans;

(b) provision which provides that the issuance of bonds or other securities by the Bank and listing shall be approved by the Shareholders' general meeting by a special resolution.

**AMENDMENTS TO THE ARTICLES**

The Articles may be amended by special resolution of Shareholders at Shareholders' general meeting. Any amendments to the Articles pursuant to a resolution of Shareholders at Shareholders' general meeting shall be subject to approval of the banking regulatory authority under the State Council and, if the Mandatory Provisions for Companies Listing Overseas are involved, approval of the company approval authority and securities regulatory authority under the State Council. Amendments to the Articles shall be registered, if so required.

**CHANGE OF RIGHTS OF EXISTING SHAREHOLDERS OR CLASSES OF SHAREHOLDERS**

If the Bank proposes to change or nullify the rights of a class of Shareholders, the proposal shall be passed by a special resolution at Shareholders' general meeting and passed at a meeting of that class of Shareholders convened according to the Articles.

The rights of a class of Shareholders shall be deemed to have been changed or nullified in the following circumstances:

(a) to increase or reduce the shares of that class, or increase or reduce the shares of other class which enjoy the same or more voting rights, distribution rights or other privileges;

(b) to convert part or whole of the shares of that class into other class(es), convert part or whole of the shares of other class(es) into that class, or grant such conversion rights;

(c) to nullify or reduce the rights of that class of shares to receive dividends declared or payable;

(d) to reduce or nullify the privileged rights of that class of shares to receive dividends or distribution of assets during liquidation of the Bank;

(e) to increase, nullify or reduce the conversion, option, voting, transfer or privileged allotment rights of that class of shares or the rights of such class of shares to receive securities issued by the Bank;

(f) to nullify or reduce the rights of that class of shares to receive amounts payable by the Bank in a particular currency;

(g) to create new class(es) of shares which enjoy the same or more voting rights, distribution rights or other privileges as compared with that class of shares;

(h) to restrict the transfer and ownership of that class of shares, or increase the restrictions;

(i) to grant rights of subscription or conversion into such class or other class(es) of shares;

(j) to increase the rights or privileges of other class(es) of shares;

(k) any restructuring scheme of the Bank that may result in the assumption of disproportionate responsibilities by different classes of Shareholders;

(l) to revise or nullify the provisions in this clause.

Holders of a class of shares affected shall have voting rights at the Shareholders' general meeting of that class of meeting to decide matters under sub-paragraphs (b) to (h), (k) and (l), even if they do not have voting rights at Shareholders' general meeting and the Shareholders with conflict of interest shall abstain from voting.

A resolution of the meeting of a class of Shareholders shall be adopted by more than two-thirds of the voting shares represented by Shareholders of that class present at the meeting.

When convening a meeting for a class of Shareholders, the Bank shall issue a written notice twenty (20) business days prior to the date of the meeting to all Shareholders of the class whose names appear on the register of Shareholders stating the matters to be considered at the meeting and the date and venue of the meeting.

The notice of a meeting of a class of Shareholders is only required to be given to the Shareholders entitled to vote at that meeting.

The procedures for convening a meeting of a class of Shareholder shall be the same as the procedures for Shareholders' general meeting to the extent practical, and the provisions in the Articles relating to the procedure to convene a Shareholders' general meeting shall apply to the meeting of class Shareholders.

Apart from other classes of Shareholders, the Shareholders of domestic shares and overseas listed foreign shares are deemed to be Shareholders of different classes.

The special voting procedure for class Shareholders shall not apply for the following cases:

(a) pursuant to approval by special resolution of the Shareholders' general meeting, the Bank separately or simultaneously issues domestic shares and/or overseas listed foreign shares, provided that the amount of each class of shares to be issued in every twelve (12) months shall not be more than 20% of the shares of the respective class in issue;

(b) the plan of the Bank to issue domestic shares and overseas listed foreign shares at the time of incorporation, which shall be completed within fifteen (15) months from the date of approval of the securities regulatory authorities of the State Council;

(c) the transfer of domestic shares to overseas investors for listing and trading in overseas stock exchanges pursuant to approval of the banking regulatory authority and securities regulatory authority of the State Council.

The meaning of "the Shareholders with conflict of interests" is as follows:

(a) if the Bank extends an offer to all Shareholders to purchase shares on a pro rata basis in accordance with the Articles or repurchases its shares through public transaction on a stock exchange, "Shareholders with conflicts of interests" shall mean the "controlling Shareholders" defined in the Articles;

(b) if the Bank repurchases shares under an off-market agreement in accordance with the Articles, "Shareholders with conflicts of interests" shall mean Shareholders who are parties to the agreement;

(c) in a restructuring scheme of the Bank, "Shareholders with conflicts of interests" shall mean Shareholders who assume liability in a lower proportion than other Shareholders of the same class, or those who own different interests as compared with other Shareholders of the same class.

## RESOLUTIONS

The resolutions of a Shareholders' general meeting shall either be classified as ordinary resolutions or special resolutions.

Ordinary resolutions shall be approved by a simple majority of voting rights held by the Shareholders (including their proxies) attending the meeting.

Special resolutions shall be approved by more than two-thirds of voting rights held by the Shareholders (including their proxies) attending the meeting.

## VOTING RIGHTS

A Shareholder (including his/her proxy) shall exercise his/her voting rights based on the number of shares with voting rights held. Each share shall have one (1) vote.

A Shareholder (or proxy) who is entitled to two or more votes need not cast all the votes in the same manner.

Voting at a Shareholders' general meeting shall be taken by poll, save for resolutions on procedures for Shareholders' general meeting or administrative matters which can be resolved by a show of hands unless a poll is demanded, before or after the show of hands, by:

(a) the chairman of the meeting;

(b) not less than two Shareholders (or his/her proxies) having voting rights; and

(c) Shareholder(s) holding not less than 10% of the voting shares in aggregate presenting at the meeting.

Subject to the Listing Rules and unless a demand of vote by poll is raised, the chairman of a Shareholders' general meeting may decide to vote by a show of hands and record the voting results in the minutes of meeting as the evidence of decision and no evidence of the number or proportion of votes is required.

The demand of vote by poll may be withdrawn by the one who raise the demand.

## REQUIREMENT FOR ANNUAL GENERAL MEETINGS

The annual general meeting shall be held once a year within six (6) months after the end of a financial year.

**ACCOUNTS AND AUDIT**

The Bank shall establish its financial accounting system in accordance with the laws, administrative regulations and PRC accounting standards issued by Financial Authority under the State Council.

The Board of our Bank has established an Audit Committee which shall has not less than three members. The chairman of the Audit Committee shall be an independent Director.

The Bank shall prepare its financial statements in accordance with PRC accounting standards and regulations, as well as in accordance with international accounting standards or the accounting standards required by securities regulatory authorities of the place where the shares of the Bank are listed. If there are any material differences between the financial statements prepared in accordance with the two accounting standards, such differences shall be stated in the notes to the financial statements. For distribution of the after-tax profits for the relevant financial year, the Bank shall adopt the one with the lower after-tax profits out of the aforesaid two financial statements.

The interim results or financial information published or disclosed by our Bank shall be prepared in accordance with PRC accounting standards and regulations, as well as in accordance with international accounting standards or the accounting standards required by securities regulatory authorities of the place where the shares of the Bank are listed.

Our Bank shall publish its financial report twice every financial year, i.e. the interim financial report within 60 days after the end of the first six months of each financial year and the annual financial report within 120 days after the end of each financial year.

The regulations of the securities regulatory authority in the place where the shares of the Bank are listing shall prevail.

The financial report of our Bank shall be made available at our Bank not less than 21 days before the convening of the annual general meeting for inspection by shareholders. Each Shareholder of our Bank shall be entitled to obtain the financial reports mentioned in these Articles.

The Bank shall send (a) the aforesaid report or report of the Board along with the balance sheet (including all documents attached to balance sheet according to law) and income statement or income and expenditure statement or (b) summary of financial report to each Shareholder of overseas listed shares by personal delivery or pre-paid post at least twenty-one (21) days prior to the convening of the annual general meeting of Shareholders. The address of the recipients shall be the address registered in the register of Shareholders. The aforesaid reports can be delivered to holder of overseas listed shares by posting on the website of the Bank or Hong Kong Stock Exchange or other websites allowed by the Hong Kong Listing Rules from time to time subject to the laws, administrative regulations or listing rules of the places where the shares of the Bank are listed. The regulations, if any, of the securities regulatory authority in the place where the Shares are listed shall prevail.

**NOTICE OF MEETINGS AND BUSINESS TO BE CONDUCTED THEREAT**

Shareholders' general meetings can be classified into annual general meetings and extraordinary general meetings. The annual general meeting shall be convened once a year.

An extraordinary general meeting shall be convened within two (2) months from the date of occurrence of any of the following:

(a) the number of Directors is less than the minimum number required by the Company Law or less than two-thirds of the number stipulated in the Articles of the Bank;

(b) the outstanding loss of the Bank equals to or is more than one-third of the total paid-up share capital of the Bank;

(c) shareholders individually or jointly holding more than 10% of the voting shares of the Bank request to convene the meeting in writing;

(d) the Board considers necessary to convene the meeting;

(e) the Board of Supervisors proposes to convene the meeting; and

(f) any other circumstances as stipulated by the laws, regulations, regulatory requirements or the Articles of the Bank.

When the Bank is to convene a general meeting, the conveners shall issue a written notice, twenty (20) business days prior to the date of the meeting, to all Shareholders whose names appear on the register of Shareholders, stating the matters to be considered at the meeting and the date and venue of the meeting. When the Bank is to convene an extraordinary general meeting, the conveners shall issue a written notice, ten (10) business days or fifteen (15) days (whichever is longer) prior to the date of the meeting, to all Shareholders whose names appear on the register of Shareholders, stating the matters to be considered at the meeting and the date and venue of the meeting. An extraordinary general meeting shall not decide on matters not specified in the notice.

The notice of a Shareholders' general meeting shall meet the following requirements:

(a) be made in writing;

(b) specify the venue, date and time of the meeting and duration of the meeting;

(c) specify the matters to be discussed at the meeting;

(d) all necessary information and explanation to enable Shareholders to make informed decisions on the matters to be discussed. This means that when the following matters, which shall include but shall not be limited to merger, share repurchase, share capital reorganization or structural reorganization of the Bank, are involved, the terms of the proposed transaction, copies of the proposed agreement (if any) and detailed explanation as to the cause and effects of such transaction shall be provided;

(e) if any of the Directors, Supervisors or other senior management have material interest in the matters to be discussed, they shall disclose the nature and extent of such interest; and if the effects of the matters to be discussed have a different effect on a Director, Supervisor or other senior management as Shareholders compared to other Shareholders of the same class, they shall explain this difference;

(f) the full text of the special resolution to be voted on at the meeting;

(g) an explicit statement that a Shareholder is entitled to attend and vote at the meeting in person or by proxy who need not be a Shareholder;

(h) the time and address for lodging the proxy forms of the meeting;

(i) the shareholding record date to determine the entitlement of Shareholders to attend the meeting;

(j) the name and phone number of the contact person of the meeting;

(k) other requirements stipulated by relevant laws, regulations, regulatory requirements and the Articles of the Bank.

The notice of a Shareholders' general meeting shall be delivered by hand or prepaid mail to all Shareholders (regardless of whether they have voting rights at the Shareholders' general meeting) unless otherwise stipulated by relevant laws, regulations, regulatory requirements and the Articles of the Bank. The address of the recipients shall be the address registered in the register of Shareholders. For holders of domestic shares, the notice of a Shareholders' general meeting may be in the form of an announcement.

The aforesaid announcement shall be published in one or more newspapers specified by the securities regulatory and administrative authorities under the State Council. All holders of domestic shares shall be deemed as having been notified of the forthcoming Shareholders' general meeting once the announcement is published.

The Shareholders' general meeting is an organ of power of the Bank. It shall exercise the following powers in accordance with the law:

(a) to decide on the business policies and investment plans of the Bank;

(b) to elect and replace Directors and Supervisors who are not employee representatives and to decide on the remuneration of the Directors and Supervisors;

(c) to consider and approve reports of the Board;

(d) to consider and approve reports of the Board of Supervisors;

(e) to consider and approve the annual financial budget and final accounts of the Bank;

(f) to consider and approve profit distribution plans and the plans for making up losses of the Bank;

(g) to determine the increase or reduction in registered capital of the Bank;

(h) to determine the issue and listing of corporate bonds or other securities of the Bank;

(i) to determine the merger, division, dissolution, liquidation, or change of the form of organization of the Bank;

(j) to amend the Articles of the Bank;

(k) to decide on the engagement, dismissal or discontinuation of the appointment of accounting firm of the Bank;

(l) to consider and approve the annual report of the Bank;

(m) to consider the investment of fixed assets, provision guarantees, external investments, asset acquisition or disposal, mortgages, entrusting others to manage the funds or assets of the Bank which are required to be considered by Shareholders' general meeting in accordance with the laws, regulations, regulatory requirements, the Articles of the Bank and other internal regulations of the Bank, including any single purchase or disposal of material assets accounting for more than 10% of the latest audited net assets of the Bank, external equity investment amount exceeding 5% of the net capital of the Bank, or any equity investment which may cause the balance of equity investment exceeds 20% of the net capital of the Bank;

(n) to consider proposals raised by Shareholders individually or jointly holding not less than 3% of the total voting shares of the Bank;

(o) to consider and determine on other matters significantly important to the Bank; and

(p) to consider other matters which are required to be decided by Shareholders' general meeting in accordance with the laws, regulations, regulatory requirements and the Articles of the Bank.

The following matters shall be approved by special resolutions of Shareholders' general meeting:

(a) an increase or reduction in the registered capital and the issue of any class of shares, warrants and other securities of the Bank;

(b) the issue and listing of bonds or other securities of the Bank;

(c) the merger, division, dissolution, liquidation, or change of the form of organization of the Bank;

(d) the purchase or sale of single material asset that exceed 10% of the latest audited net assets of the Bank;

(e) amendments to the Articles of the Bank;

(f) equity incentive plans; and

(g) other matters required to be approved by special resolution in accordance with the laws, regulations, regulatory requirements or the Articles of the Bank, or by ordinary resolution of Shareholders' general meeting as the matters are significantly important to the Bank.

**TRANSFER OF SHARES**

Unless otherwise specified by the laws, regulations and the regulations of the securities regulatory authorities in the place where the securities of the Bank are listed, the fully paid shares of the Bank may be transferred freely without any lien attached. The transfer of shares of the Bank, transfer notes and other documents related to the ownership of any shares or that may affect the ownership of the shares need to be registered with the local share registrar authorized by the Bank.

All paid-up overseas-listed shares listed on the Hong Kong Stock Exchange may be freely transferred in accordance with the Articles of the Bank without any lien of our Bank attached. However, the Board may refuse to recognize the documents for transfer without stating any reason if the conditions stipulated by the Articles of the Bank are not met.

The Bank shall comply with the relevant regulations of the banking regulatory and administrative authorities under the State Council or other relevant administrative authorities in transferring its shares.

**Pledge of Shares**

The Bank shall not accept its own shares as a pledge.

If the Shareholders pledge their shares in the Bank to provide guarantees for themselves or others, they shall comply strictly with the laws, regulations and the requirements of regulatory authorities, and inform the Board of the Bank in advance.

If Shareholders who are Directors or Supervisors of the Bank or Shareholder who can directly or indirectly, or jointly hold or control above 2% of the shares or voting rights of the Bank pledge the shares of the Bank, they shall make an application to the Board for filing in advance to state basic information such as reason for pledge, number of shares, duration of the pledge and the pledgee. Filing shall not be made if the Board determines that it has material adverse effect on the stability of the shareholding, corporate governance, risk and control on related (connected) transactions of the Bank. The Director(s) nominated by a Shareholder proposing to pledge his shares in the Bank shall abstain from voting at the meeting of the Board at which such proposal is considered.

Upon completion of shares pledge registration, Shareholders shall in a timely manner provide the Bank with relevant information regarding the pledge of shares in line with the risk management of the Bank and information disclosure requirement.

Shareholders shall not pledge the shares of the Bank if the outstanding balance of the loans they have borrowed from the Bank exceeds the audited net book value of the shares of the Bank held by them in the previous year.

When the shares pledged by a Shareholder reaches or exceeds 50% of its holding of shares in the Bank, the voting rights of such Shareholder at general meetings and the voting rights of Directors appointed by such Shareholder at meetings of the Board shall be restricted.

## POWER OF OUR BANK TO REPURCHASE ITS OWN SHARES

The Bank shall not purchase its own shares. However, the Bank may, in accordance with the Articles of the Bank and with the approval of the competent authorities, repurchase its issued shares in the following circumstances:

(a) to cancel shares in order to reduce the capital of the Bank;

(b) to merge with another company that holds its shares;

(c) to use shares for employee stock ownership plan or equity incentives;

(d) a shareholder requests the Bank to purchase the shares held by him/her since he/she objects to a resolution of Shareholders' meeting on the merger or division of the Bank;

(e) to use shares for conversion of convertible corporate bonds issued by the Bank;

(f) necessary for protection of corporate value and the rights and interests of its Shareholders;

(g) any other circumstances as stipulated by the laws, regulations and relevant state authorities.

Except for the circumstances set out above, the Bank shall not be engaged in sale and purchase of its Shares.

The Bank purchasing its own shares under any of the circumstances set forth in sub-paragraphs (a) and (b) of the preceding paragraph shall be approved by resolution of shareholders' meeting; and the Bank purchasing its own shares under any of the circumstances set forth in sub-paragraphs (c), (e) and (f) of the preceding paragraph shall be approved, pursuant to the Articles of the Bank or the authorization of the shareholders' meeting, by resolution of the Board at which more than two-thirds of Directors are present.

After purchasing its own shares pursuant to the provisions of the above paragraph, the Bank shall, in the case of the circumstance in sub-paragraph (a), cancel such Shares within 10 days after the purchase; in the case of the circumstances in sub-paragraphs (b) or (d), transfer or cancel such Shares within six months; and in the case of the circumstances in sub-paragraphs (c), (e) or (f), the shares in the Bank held in aggregate by the Bank shall not exceed 10% of the total issued Shares in aggregate and such Shares shall be transferred or cancelled within three years.

If the Bank purchase its shares under the circumstances set forth in sub-paragraphs (c), (e), and (f) above, the purchase shall be conducted by way of open block trading.

With the approval of competent authorities, the Bank may conduct the repurchase in one of the following manners:

(a) to make an offer to all Shareholders to repurchase shares in the same proportion;

(b) to repurchase Shares through public trading on a stock exchange;

(c) to repurchase through an off-market agreement; and

(d) by other means permitted by the laws, administrative regulations and the relevant competent authorities.

The share repurchase by the Bank through an off-market agreement shall be approved by Shareholders' general meeting in advance in accordance with the Articles of the Bank. The Bank may rescind or alter any contracts entered into as aforesaid manner or waive any rights under such contracts if so approved by Shareholders' general meeting in the same manner.

The contract to repurchase shares as referred to in the previous paragraph includes, but not limited to, an agreement to become obliged to repurchase or to acquire the right to repurchase shares.

The Bank shall not assign a contract for repurchasing its shares or any of its rights thereunder.

Where the Bank has the right to repurchase shares by means other than repurchases through the market or by tender, the repurchase price shall be fixed at a maximum price. If repurchases are made by tender, an invitation for tenders shall be made to all shareholders alike.

Unless the Bank is undergoing liquidation, it shall comply with the following requirements with respect to a repurchase of its issued shares:

(a) for repurchases of shares by the Bank at their par value, payment shall be made from retained distributable profits or from the proceeds of a new issue of shares for that purpose;

(b) where the Bank repurchases its shares at a premium, payment up to the par value shall be made from retained distributable profits or from the proceeds of a new issue of shares for that purpose. Payment of the portion in excess of the par value shall be made as follows: (i) if the shares being repurchased were issued at par value, payment shall be made from distributable profits; (ii) if the shares being repurchased were issued at a premium, payment shall be made from distributable profits or from the proceeds of the new issue of shares for that purpose. However, the amount deducted from the proceeds of the new issue of shares shall not exceed the aggregate amount of the premium received by the Bank from the issue of the shares so repurchased, nor shall it exceed the amount in the premium account or capital reserve account (including premium on the new issue) of the Bank at the time of such repurchase;

(c) the Bank shall make the following payments from the distributable profits of the Bank: (i) acquisition of the rights to repurchase its own shares; (ii) variation of any contracts for the repurchase of its shares; (iii) release from its obligations under any repurchase contracts;

(d) the par value of the canceled shares shall be deducted from the registered capital of the Bank in accordance with the relevant requirements, the amount deducted from the distributable profits for the repurchase of shares at par value shall be credited to the premium account or capital reserve account of the Bank.

**RIGHT OF OUR SUBSIDIARIES TO OWN SHARES IN OUR BANK**

There are no provisions in the Articles of the Bank preventing a subsidiary of our Bank from owning any of our shares.

**DIVIDENDS AND OTHER METHODS OF PROFIT DISTRIBUTION**

The Bank may distribute dividends in the following manners: 1. cash; 2. Shares; 3. other forms in compliance with laws, regulations, regulatory requirements and the stock exchanges where the securities of the Bank are listed.

Our Bank shall appoint a recipient agent for Shareholders of overseas listed shares. The recipient agent shall collect on behalf of the Shareholders concerned the dividends distributed and other funds payable by the Bank in respect of the overseas listed shares. The recipient agent appointed by the Bank shall comply with the laws of the place where the shares of the Bank are listed or the relevant requirements of the stock exchange where the shares of the Bank are listed. The recipient agent appointed by the Bank for Shareholders of the overseas-listed shares shall be a company which is registered as a trust company under the Trustee Ordinance of Hong Kong.

**PROXIES**

Any Shareholder entitled to attend and having voting rights at a Shareholders' general meeting shall be entitled to appoint one or more persons (these persons need not be Shareholders) as proxies to attend and vote on their behalf. A proxy may exercise the following powers at a Shareholders' general meeting as instructed by the Shareholder:

(a) the same right of speech as the Shareholder at the meeting;

(b) have authority to demand or join other Shareholders in demanding a poll;

(c) have the right to vote by hand or on a poll, but when more than one proxy has been appointed, the proxies only have the right to vote on a poll.

The power of attorney shall be placed at the domicile of the Bank or at any other place designated in the notice of Shareholders' general meeting, and at least twenty-four (24) hours prior to either the convening of the relevant meeting in which the resolutions are to be voted on or the designated voting time. If the power of attorney is signed by a person authorized by the appointing Shareholder instead of the appointing Shareholder himself/herself, the power of attorney or other authorization documents shall be notarized. The notarized power of attorney or other authorization documents shall, together with the proxy form authorizing the proxy to vote, be placed at the domicile of the Bank or any other place designated in the notice of Shareholders' general meeting.

A corporate shareholder shall be represented by its legal representative or proxies authorized by the resolutions of the Board and other decision-making bodies to attend the general meeting of the Bank.

If the appointing Shareholder deceases, losses his/her ability to act, withdraws the power of attorney, withdraws the authorization or transferred all of his/her Shares prior to voting, as long as the Bank has not received any written notice regarding these matters before the commencement of the relevant meeting, the vote cast by the proxy in accordance with the proxy form shall remain valid.

**CALLS ON SHARES AND FORFEITURE OF SHARES**

Our Bank shall have the right to cease delivering dividend notice to the Shareholders of overseas listed shares by mail, but such right can only be exercised after the dividend notice has not been drawn twice consecutively. If a dividend notice fails to reach the expected recipient in the initial mail delivery and is returned, the Bank may exercise the right promptly.

Our Bank shall have the right to sell the shares of the untraceable Shareholders of overseas listed shares through the methods the Board deems appropriate and subject to the following conditions:

(a) the Bank has distributed dividends on such shares at least three (3) times in a period of twelve (12) years and the dividends are not claimed by anyone during that period;

(b) after the expiration of the twelve-year period, the Bank makes a public announcement in one or more newspapers in the place of listing, stating its intention to sell such shares and notifies the securities regulatory authorities of the place where the shares of the Bank are listed.

**RIGHTS OF SHAREHOLDERS (INCLUDING INSPECTION OF REGISTER OF SHAREHOLDERS)**

The Shareholders of ordinary Shares of our Bank shall enjoy the following rights:

(a) to receive dividends and other kinds of distributions according to their shareholdings;

(b) to request, convene, preside over, attend or appoint a proxy to general meetings, and to exercise voting rights according to laws;

(c) to supervise the business operations of the Bank, and to make suggestions and enquiries accordingly;

(d) to transfer, bestow or pledge shares held by them in accordance with the laws, regulations, regulatory requirements and these Articles;

(e) to obtain relevant information in accordance with the laws, regulations, regulatory requirements and these Articles, including:

1. to obtain a copy of these Articles after paying the costs and expenses incurred;

2. have the right to inspect and to photocopy, after paying a reasonable fee, the following documents:

   (i) all register and branch registers of Shareholders;

   (ii) the personal information of the Directors, Supervisors and senior management of our Bank;

   (iii) report of the share capital of the Bank;

   (iv) reports on the aggregate par value, number of shares, and highest and lowest prices of each class of shares in relation to any repurchase by the Bank of its own shares since the last financial year, as well as all the expenses paid by the Bank in relation to such repurchases;

   (v) minutes of Shareholders' general meetings;

(vi) the latest audited financial statements, Directors' reports, auditors' report and report of the Board of Supervisors of the Bank;

(vii) special resolutions;

(viii) a copy of the latest annual report submitted to the State Administration for Market Regulation or other competent bodies;

(ix) counterfoil of debentures, board resolutions, resolutions of the supervisory board of our bank;

Except the documents set out in (ii) above, the Bank shall keep the documents specified in sub-paragraphs (i) to (viii) at the Hong Kong address of the Bank for free inspection by the public and holders of overseas-listed Shares. Documents set out in (v) are for inspection by Shareholders only. Shareholders can inspect copies of the minutes of shareholders' general meeting for free during office hours of the Bank. If any shareholder requests a copy of meeting minutes, the Bank shall send the copy within seven days after receiving a reasonable fee.

(f) to participate in the distribution of the remaining assets of the Bank based on the number of shares held in the event of the dissolution or liquidation of the Bank;

(g) to demand the Bank to acquire their shares (for Shareholders who disagree with the resolutions adopted at a Shareholders' general meeting in relation to the merger or division of the Bank); and

(h) to have other rights conferred in accordance with the laws, regulations, and these Articles.

The Bank shall not exercise any right to freeze or otherwise damage the rights attached to any shares directly or indirectly held by any person only on the ground that the said person has not disclosed his/her equity to the Bank.

**QUORUM FOR SHAREHOLDERS' GENERAL MEETINGS AND CLASS MEETINGS**

When the Bank is to convene a general meeting, the conveners shall issue a written notice, twenty (20) business days prior to the date of the meeting, to all Shareholders whose names appear on the register of Shareholders, stating the matters to be considered at the meeting and the date and venue of the meeting.

When convening a meeting for a certain class of Shareholders, the Bank shall issue a written notice, twenty (20) business days prior to the date of the meeting, to all Shareholders in the relevant class whose names appear on the register of Shareholders, stating the matters to be considered at the meeting and the date and venue of the meeting.

The class meeting convened for considering change or abolish any rights of class shareholders shall be attended by one-third or above of such class shareholders unless such class meeting is an adjourned class meeting.

**RIGHTS OF MINORITY SHAREHOLDERS**

In addition to the obligations required under the laws, regulations, regulatory requirements or the listing rules of a stock exchange located in the place where the shares of the Bank are listed, when exercising their rights as a Shareholder, controlling shareholders shall not exercise their voting rights and make decisions on the following issues as these issues are detrimental to the interests of all or some of the Shareholders:

(a) relieving a Director or Supervisor of their responsibility to act in good faith and in the best interests of the Bank;

(b) approving a Director or a Supervisor in depriving the Bank of its assets in any form, including but not limited to any opportunities that are advantageous to the Bank, regardless of whether the deprivation is made for the Director, or Supervisor's benefit or for the benefit of others;

(c) approving a Director or a Supervisor (for his/her own or for the benefit of others) in depriving other Shareholders of their personal interests, including but not limited to any distribution rights and voting rights, unless the deprivation is made pursuant to a Bank restructuring submitted to and adopted at the Shareholders' general meeting in accordance with these Articles.

The "controlling shareholder(s)" shall refer to the shareholder(s) satisfying any of the following conditions: 1. the shareholder may elect more than half of the Directors when acting alone or in concert with others; 2. the shareholder may exercise or control the exercise of above 30% of the total voting shares of the Bank when acting alone or in concert with others; 3. the shareholder holds above 30% of issued and outstanding shares of the Bank when acting alone or in concert with others; 4. the shareholder may de facto control the Bank in any other manner when acting alone or in concert with others.

**PROCEDURES ON LIQUIDATION**

The Bank shall be dissolved due to the following reasons:

(a) term of operation expires;

(b) the Shareholders' general meeting resolves to do so;

(c) dissolution is necessary as a result of a merger or division of the Bank;

(d) the Bank is declared bankrupt due to its failure to repay debts due;

(e) if the business license of the Bank is revoked or if it is ordered to close down its business due to violation of laws and administrative regulations;

(f) where the operation and management of the Bank encounter serious difficulties and its continued existence would cause material losses to Shareholders, the Shareholders holding more than 10% of the total voting rights of the Bank may apply to the people's court to dissolve the Bank if there are no other solutions.

If the Bank is dissolved under the circumstances in sub-paragraphs (a), (b), (e) or (f), the Bank shall set up a liquidation committee within fifteen days after the approval of the banking regulatory and administrative authorities under the State Council and the members of the liquidation committee shall be decided by ordinary resolution of Shareholders' general meeting.

If the Bank is dissolved under the circumstances of sub-paragraph (d), the people's court shall set up a liquidation committee composed of representatives from the banking regulatory and administrative authorities under the State Council, shareholders, related authorities and professionals according to the laws.

Creditors may apply to the People's Court for the establishment of a liquidation committee and appointment of its members if a liquidation committee is not set up in time.

If the Bank is dissolved under the circumstances of sub-paragraph (e), the banking regulatory and administrative authorities under the State Council shall set up a liquidation committee composed of representatives from shareholders, related authorities and professionals.

If the Board decides that the Bank shall be liquidated (except for liquidation resulting from declaration of bankruptcy), it shall state in the notice of Shareholders' general meeting convened for such purpose that the Board have conducted a comprehensive investigation into the situation of the Bank and believes that the Bank is able to pay off all its debts within twelve months from the commencement of the liquidation.

The functions and powers of the Board of the Bank shall be terminated immediately upon the adoption of a resolution by Shareholders' general meeting for liquidation.

The liquidation committee shall follow the instructions of the Shareholders' general meetings and shall report to the Shareholders' general meeting at least once a year on the income and expenditure of the liquidation committee, the business of the Bank and the progress of the liquidation, and shall make a final report to the Shareholders' general meeting upon completion of the liquidation.

## OTHER PROVISIONS MATERIAL TO OUR BANK AND OUR SHAREHOLDERS

### General Provisions

Having considered and approved by Shareholders' general meeting and approved by the banking regulatory and administrative authorities under the State Council, these Articles shall become effective from the date of listing of the H Shares of the Bank on the Hong Kong Stock Exchange. When effective, these articles shall be a legally binding document to regulate the organization and activities of the Bank, as well as the rights and obligations between the Bank and its Shareholders, and amongst the Shareholders.

Subject to approval by Shareholders' general and the banking regulatory authority under the State Council, the Bank may increase its registered capital as follows in the light of its business and development needs, in accordance with the relevant laws, regulations, and these Articles:

(a) open offer of new shares to non-specific investors;

(b) issuance of new shares to specific investors;

(c) rights issue of new shares to existing Shareholders;

(d) bonus issue of new shares to existing Shareholders;

(e) capitalization of reserve;

(f) other methods permitted by laws and administrative regulations.

The increase of capital of the Bank by issuing new shares shall be conducted in accordance with the procedures provided in relevant laws, regulations and regulatory provisions, after being approved according to these articles and the banking regulatory and administrative authorities under the State Council.

Shareholder of our Bank shall have the following obligations:

(a) to abide by the laws, regulations, regulatory provisions, and these articles;

(b) to contribute to the share capital according to the number of shares subscribed and the prescribed method of capital contribution;

(c) not to withdraw their contributed share capital unless allowed by the laws, regulations and regulatory provisions;

(d) to safeguard the interests and reputation of our Bank and support the legal operation of the Bank;

(e) to comply with and implement resolutions of a general meeting;

(f) corporate shareholders shall report in writing of their related-party relationship with other shareholders and their shareholdings in other commercial banks promptly, truly and completely to the Board of our Bank;

(g) a corporate Shareholder shall inform our Bank in writing within thirty days, if there have occurred any changes with respect to its legal representative, company name, registered address, business scope, affiliative relationships and other major matters, or its dissolution, deregistration, consolidation with or merger into another company;

(h) support the measures proposed by the Board to increase capital adequacy ratio when the capital adequacy ratio of our Bank is lower than the statutory threshold or the minimum level required by the banking regulatory and administrative authorities under the State Council;

(i) Shareholders shall repay all borrowings from the Bank, whether due to repay or not, when the Bank is likely to have difficulty in liquidity;

(j) not to abuse Shareholders' rights to harm the interests of our Bank or other Shareholders; not to abuse the independent status of the Bank as a legal person and the limited liability of Shareholder to harm the interest of the creditors of the Bank;

(k) substantial Shareholders shall support the Board to formulate reasonable capital planning, make long-term written commitments on contribution of additional capital and replenish capital as part of the capital plan of the Bank when necessary to main the compliance of regulatory requirement. When our capital fails to satisfy the regulatory requirement, we shall formulate capital replenishment plan to meet the regulatory requirement on capital adequacy ratio within time limit and replenish capital by increasing core capital or other means. Substantial Shareholders shall not hinder other Shareholders to replenish capital to the Bank or the admission of qualified new Shareholders;

(l) without the requisite approval from or report to the regulatory authorities, Shareholders shall not exercise their rights to demand the convening of Shareholders' general meeting, to vote, to nominate, to raise motions and to impose punishment;

(m) for any Shareholder who has made false statement, abuses shareholder's rights or has other acts that harm the interests of the Bank, the banking regulatory authorities under the State Council may restrict or prohibit any related party transactions between the Bank and him/her and restrict the quota of the equity of the Bank held by him/her and equity pledge ratio as well as his/her rights including the right to request convening the Shareholders' general meeting, voting right, right of nomination, right of making motions and right of disposition;

(n) to assume other obligations required by the laws, regulations and these articles.

Shareholders shall not be liable for making any additional contribution to the share capital of the Bank other than according to the terms agreed by the subscriber of the shares at the time of subscription.

Difficulty in liquidity referred to in sub-paragraph (i) above shall have the meaning prescribed by laws and regulations. Otherwise, the meaning of difficulty in liquidity shall be determined by resolution of the Board of the Bank.

**Qualification Shares of Directors**

Directors of the Bank shall be a natural person and is not required to hold any shares of the Bank.

**BOARD OF DIRECTORS**

The Board undertakes final responsibility of operation and management of the Bank, and exercises the following functions and powers in accordance with law:

(a) to convene Shareholders' general meetings and report its works at the meetings;

(b) to implement resolutions of Shareholders' general meetings;

(c) to establish business development strategies, and special development strategies of green credit, financial innovation and consumer interest protection, supervise the implementation of strategies and to decide operational plans and investment proposals of the Bank;

(d) to prepare annual financial budget plans and final account plans of the Bank;

(e) to formulate profit distribution plans and loss recovery plans of the Bank;

(f) to formulate the capital planning and take ultimate responsibility for capital management, propose increases in or reductions of registered capital, issue of bonds of the company or other securities and listing plans of the Bank;

(g) to propose major acquisition by the Bank, acquisition of shares of the Bank or merger, division, dissolution and change in corporate structure of the Bank;

(h) to decide, other than daily operation of the Bank, external investments, purchase or disposal and pledge of assets, external guarantees, entrustments of others to manage the Bank's funds or other assets of the Bank, except for material matters regulated in the Articles, which shall be decided by the shareholders' general meeting;

(i) to decide material related party transactions of the Bank, unless otherwise regulated in the Articles;

(j) to decide on the establishment of internal management structure of the Bank;

(k) to decide on the appointment or dismissal and remuneration of the President and the Secretary of the Board based on the advice of the Nomination and Remuneration Committee and the proposals of the President of the Board; to decide on the appointment or dismissal of other senior management members, such as the Vice President, Assistant to the President, proposed by the President and remunerations of the aforesaid persons;

(l) to establish the basic management system of the Bank;

(m) to take the ultimate responsibility for specific risk management of the Bank such as the comprehensive risk management and operation compliance, liquidity risk management, reputation risk management and management of consolidated financial statements as well as the key work such as protection of consumers' interests;

(n) to develop risk management culture, to formulate the comprehensive risk management policy of the Bank, and to formulate risk management systems for risk tolerance, risk preference, internal control, reputation risk, financial innovation risk management and event risk management, which shall be taken as the important parts of the risk management of the Bank;

(o) to prepare any amendment proposals to the Articles;

(p) to formulate information disclosure system of the Bank and take ultimate responsibilities for the truthfulness, accuracy, completeness and timeliness of accounting and financial reports of the Bank;

(q) to determine the job responsibilities for any manager, including the President, the Vice President, the Assistant to President, the Secretary to the Board of the Bank;

(r) to monitor the performance of senior management and ensure their effective performance;

(s) to receive the work report from the president and inspect the work of the president of the Bank;

(t) the Board shall establish a supervisory system for the management to formulate the code of conduct and terms of reference for management and business officers and that the normative documents above shall specifically require employees at all levels to report any potential conflict of interests in a timely manner, provide particular rules and establish corresponding mechanisms;

(u) the Board shall establish a reporting system and require the senior management to report to the Board and directors the operation and management issues of the Bank, and the reporting system shall cover provisions for the following issues:

  (i) the content of the information reported to the Board and directors and the minimum reporting standards;

  (ii) the reporting frequency;

  (iii) the reporting method;

  (iv) the responsible body and liabilities arising from postponed or incomplete reporting;

  (v) the confidentiality obligations.

(v) to evaluate and refine the corporate governance of the Bank on a regular basis;

(w) to protect the legitimate interests of depositors and other interested parties;

(x) to establish the mechanism for identification, verification and management of the conflict of interest between the Bank and shareholders, in particular Substantial Shareholders;

(y) to exercise any other duties and power conferred by laws, regulations, regulatory provisions and the Articles.

Not less than four regular meetings of the Board shall be held every year, at least one meeting every quarter. The regular meetings shall be convened by the chairman of the Board by written notice to all Directors and Supervisors 14 days before the date of the meeting.

**BOARD OF SUPERVISORS**

The Bank shall have a Board of Supervisors composed of twelve Supervisors. The Board of Supervisors shall have one chairman elected by more than two-thirds of all members of the Board of Supervisors through a resolution subject to confirmation of the compliance of the appointment by the banking regulatory authorities of the State Council. The chairman of the supervisory board shall be served by a professional for a term of three years and he/she may serve consecutive terms if reelected. The appointment and removal of the chairman shall be subject to the approval of more than two-third of all members of the Board of Supervisors by resolution.

The chairman of the board of supervisors shall convene and preside over supervisory board meetings. Where the chairman of the supervisory board is incapable of performing or is not performing his/her duties, a supervisor nominated by more than half of the supervisors shall convene and preside over supervisory board meetings.

Representatives of the staff of the Bank at the board of supervisors shall be democratically elected by the staff of the Bank at the staff representative assembly, general staff meeting or otherwise.

The board of supervisors shall perform the following duties:

(i) to review and provide written comments on the regular reports of the Bank prepared by the Board; to review the regular reports prepared by the Bank and provide written comments on the truthfulness, accuracy and completeness of the report; to review the profit distribution plan of the Bank and express opinions on the compliance and reasonableness of the plan;

(ii) to review and monitor the financial activities of the Bank; to supervise and examine operation decision, financial activities, risk management, and internal control of the Bank, and supervise the rectification; to provide guidance to the internal audit departments;

(iii) to supervise the work of the directors and senior management; to supervise the performance of the directors and senior management; to supervise the Board to maintain prudent operation and to propose the removal of directors and senior management who have violated laws, regulations, these Articles or resolutions of Shareholders' general meeting;

(iv) to make inquiries to the Directors and senior management and to demand rectification when the acts of a Director or senior management are detrimental to the interests of the Bank;

(v) to propose the convening of extraordinary Shareholders' general meetings and to convene and preside over Shareholders' general meetings when the board fails to perform the duty of convening and presiding over Shareholders' general meetings according to the Company Law;

(vi) to submit proposals to Shareholders' general meetings;

(vii) to bring actions against directors and senior management according to article 151 of the Company Law;

(viii) to conduct investigation when irregular activities are found, and if necessary, engage an accounting firm, legal firm and other professional institutions to assist in its work at the expenses of the Bank;

(ix) to make inquiries to the Directors and senior management;

(x) to conduct audit on Directors and senior management upon termination of their services;

(xi) to review and examine the operation decision, risk management and internal control of the Bank and to provide guidance to the internal audit departments;

(xii) to exercise other duties and rights prescribed by laws, regulations, these Articles and authorized by the Board of Supervisors and Shareholders' general meetings.

The Board of Supervisory shall perform duties by means of site visit, examination, attending meetings, interview, report review, investigation, inquiry, audit and engagement of third party professional institutions to assist in its work.

**President**

The Bank shall appoint a President. The President has a term of three years. Upon expiry of the term, the President may be re-appointed. The roles of President of the Bank and Chairman shall not be performed by the same person.

The president is accountable to the Board and shall perform the following duties:

(i) to be responsible for the operation and management of the Bank and the implementation of the resolutions passed on the Board, and report work to the Board;

(ii) to submit operation plan and investment proposal to the Board on behalf of the senior management, and to be responsible for the implementation upon approved by the Board;

(iii) to propose internal management structure of the Bank;

(iv) to propose the basic management system of the Bank;

(v) to propose the regulations of the Bank;

(vi) to propose the appointment or removal of Vice President, Assistant to the President, Chief Finance Officer, Internal Audit Officer and Chief Compliance Officer by the Board;

(vii) to appoint or dismiss persons in charge of the internal departments and branches of the Bank other than those to be appointed or dismissed by the Board;

(viii) to authorize the senior management, internal departments and persons in charge of branches to conduct business;

(ix) to adopt emergency measures when any material emergency (such as a run on the Bank) arises and promptly report them to the Board and the Board of Supervisors and the banking regulatory authority of the State Council;

(x) to determine the awards and punishment of the employees of the Bank;

(xi) to exercise other duties and rights conferred by laws, administrative regulations, these Articles and the Board.

The President who does not serve as the Director of the Bank shall attend the Board meetings, but shall have no voting rights thereat.

**Secretary of the Board**

The Bank will appoint a secretary of the Board. The secretary of the Board is a senior management of the Bank and is accountable to the Board. The secretary of the Board shall be nominated by the Board and the Remuneration Committee and appointed by the Board.

The secretary of the Board shall perform the following main duties:

(i) to ensure the preparation and delivery of any reports and documents required by banking regulatory authorities and other competent authorities under the State Council;

(ii) to ensure the completeness of constitutional documents and records of the Bank;

(iii) to ensure the duly procession of the share register and ensure the timely delivery of records and documents to any persons who are entitled to such records and documents;

(iv) to prepare the convening of any Board meeting and shareholders' meeting;

(v) to draft any documents of the Board and shareholders' meeting and related terms of reference;

(vi) to assist the Board in the management of information disclosure;

(vii) to maintain the share register and to deal with any affairs relating to equity management;

(viii) other duties authorized by the Board.

The secretary of the Board shall comply with the requirements of laws, regulations, regulatory provisions and the Articles of the Bank.

**RESOLUTION OF DISPUTES**

The Bank shall abide by the following rules for resolution of dispute:

(i) If any disputes or claims in relation to the business of the Bank, with respect to any rights or obligations under these Articles, the PRC Company Law or any other relevant laws and administrative regulations, arise between Shareholders of overseas listed shares and the Bank, between Shareholders of overseas listed shares and the Directors, Supervisors or senior management of the Bank, or between Shareholders of overseas listed shares and Shareholders of domestic shares, the parties hereto shall submit such disputes or claims to arbitration.

When the aforementioned disputes or claims are submitted to arbitration, such disputes or claims shall be submitted in their entirety, and all persons (being the Bank, the Shareholders, Directors, Supervisors and senior management of the Bank) that have a cause of action based on the same grounds or the persons whose participation is necessary for the resolution of such disputes or claims, shall comply with the arbitration. Disputes with respect to the definition of Shareholders and the register of Shareholders can be resolved by ways other than arbitration.

(ii) An applicant may choose for the arbitration to be arbitrated either by the China International Economic and Trade Arbitration Commission in accordance with its arbitration rules or the Hong Kong International Arbitration Center in accordance with its securities arbitration rules. Once a claimant submits a dispute or claim to arbitration, the other party must carry out the arbitration at the arbitration institution selected by the claimant.

If an applicant opts for arbitration by the Hong Kong International Arbitration Center, either party may request for the arbitration to be conducted in Shenzhen in accordance with the securities arbitration rules of the Hong Kong International Arbitration Center.

(iii) Unless otherwise provided by the laws, regulations and regulatory provisions, the laws of the PRC shall apply to the settlement of any disputes or claims that are resolved by arbitration described in item (i) above.

(iv) The award of the arbitration institution shall be final and binding on all parties.

## 1. TAXATION OF SECURITY HOLDERS

The taxation of income and capital gains of holders of H Shares is subject to the laws and practices of the PRC and jurisdictions in which holders of H Shares are residents or otherwise subject to tax. The following summary of certain relevant taxation provisions is based on current laws and practices, makes no predictions on changes in or adjustments to relevant laws or policies and does not constitute any comments or suggestions accordingly. The discussion does not deal with all possible tax consequences relating to an investment in the H Shares, nor does it take into account the specific circumstances of any particular investor, some of which may be subject to special regulation. Accordingly, you should consult your own tax advisor regarding the tax consequences of an investment in the H Shares. The discussion is based upon laws and relevant interpretations in effect as of the Latest Practicable Date, all of which are subject to changes or adjustments and may have retrospective effect.

This discussion does not address any aspects of PRC or Hong Kong taxation other than income tax, capital gains and profit tax, business tax/appreciation tax, stamp duty and estate duty. Prospective investors are urged to consult their financial advisors regarding the PRC, Hong Kong and other tax consequences of owning and disposing of H Shares.

### A. The PRC Taxation

#### Taxation on Dividends

*Individual Investors*

Pursuant to the Individual Income Tax Law of the PRC (《中華人民共和國個人所得稅法》) (the "IIT Law") which was last amended on August 31, 2018 and the Regulations on Implementation of the Individual Income Tax Law of the PRC (《中華人民共和國個人所得稅法實施條例》) which was last amended on December 18, 2018, dividends paid by PRC enterprises are subject to an individual income tax levied at a flat rate of 20%. For a foreign individual who is not a resident of the PRC, the receipt of dividends from an enterprise in the PRC is normally subject to an individual income tax of 20% unless specifically exempted by the tax authority of the State Council or reduced or waived by an applicable tax treaty.

Pursuant to the Notice of the SAT on Issues Concerning Taxation and Administration of Individual Income Tax after the Repeal of the Document Guo Shui Fa 1993 No. 045 (《國家稅務總局關於國稅發[1993]045號文件廢止後有關個人所得稅徵管問題的通知》) issued and implemented by the SAT on June 28, 2011, domestic non-foreign-invested enterprises issuing shares in Hong Kong may, when distributing dividends to non-PRC resident individuals in jurisdictions that have agreements with the PRC, withhold individual income tax at the rate of 10%. For the individual holders of H Shares receiving dividends who are residents of jurisdictions that have entered into a tax agreement or arrangement with the PRC with tax rates lower than 10%, the non-foreign-invested enterprise whose Shares are listed in Hong Kong may apply on behalf of such holders for enjoying the lower preferential tax treatments, and, upon approval by the tax authorities, the amount which is over-withheld will be refunded. For the individual holders of H Shares receiving dividends who are residents of jurisdictions that have entered into a tax agreement or arrangement with the PRC with tax rates higher than 10% but lower than 20%, the non-foreign-invested enterprise whose Shares are listed in Hong Kong is required to withhold the tax at the agreed rate under the treaties, and no application procedures will be necessary. For the individual holders of H Shares receiving dividends who are residents of jurisdictions without taxation treaties or arrangements with the PRC or are under other situations, the non-foreign-invested enterprise whose Shares are listed in Hong Kong is required to withhold the tax at a rate of 20%.

*Enterprise Investors*

In accordance with the Corporate Income Tax Law of the PRC (《中華人民共和國企業所得稅法》) (the "CIT Law") which was last amended as of December 29, 2018 and the Implementation Provisions for the Corporate Income Tax Law of the PRC (《中華人民共和國企業所得稅法實施條例》) which was last amended on April 23, 2019, a non-resident enterprise is generally subject to a 10% corporate income tax on PRC-sourced income (including dividends received from a PRC resident enterprise), if such non-resident enterprise does not have an establishment or place in the PRC or has an establishment or place in the PRC but the PRC-sourced income is not connected with such establishment or place in the PRC. Such income tax for non-resident enterprises is deducted at source, where the payer of the income is required to withhold the income tax from the amount to be paid to the non-resident enterprise when such payment is made or due.

The Circular on Issues Relating to the Withholding of Corporate Income Tax by PRC Resident Enterprises on Dividends Paid to Overseas Non-PRC Resident Enterprise Shareholders of H Shares (《國家稅務總局關於中國居民企業向境外H股非居民企業股東派發股息代扣代繳企業所得稅有關問題的通知》) (Guo Shui Han [2008] No. 897) which was implemented by the SAT on November 6, 2008, further clarifies that a PRC-resident enterprise must withhold corporate income tax at a rate of 10% on dividends paid to overseas non-resident enterprise shareholders of H Shares for 2008 and subsequent years. In addition, the Response to Questions on Levying Corporate Income Tax on Dividends Derived by Non-resident Enterprises from Holding Stocks such as B Shares (《國家稅務總局關於非居民企業取得B股等股票股息徵收企業所得稅問題的批覆》) (Guo Shui Han [2009] No. 394) which was issued and implemented by the SAT on July 24, 2009, further provides that any PRC-resident enterprise that is listed on overseas stock exchanges must withhold corporate income tax at a rate of 10% on dividends of 2008 and onwards that it distributes to non-resident enterprises. Such tax rates may be further modified pursuant to the tax treaty or agreement that China has concluded with a relevant jurisdiction, where applicable.

Pursuant to the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》) entered into on August 21, 2006, PRC Government may levy taxes on the dividends paid by a Chinese company to Hong Kong residents (including natural persons and legal entities) in an amount not exceeding 10% of total dividends payable by the Chinese company. If a Hong Kong resident directly holds 25% or more of the equity interest in a Chinese company, then such tax shall not exceed 5% of the total dividends payable by the Chinese company. The Fifth Protocol of the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region on the Avoidance of Double Taxation and the Prevention of Fiscal Evasion issued by the SAT (《<內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排>第五議定書》) issued by the SAT and effective on December 6, 2019 states that such provisions shall not apply to arrangement made for the primary purpose of gaining such tax benefit, unless it can be confirmed that the tax benefits granted under such circumstances comply with the principles and purposes of the relevant regulations. The application of the dividend clause of tax agreements shall be subject to the PRC tax laws and regulations, such as the Notice of the State Administration of Taxation on the Issues Concerning the Application of the Dividend Clauses of Tax Agreements (《國家稅務總局關於執行稅收協定股息條款有關問題的通知》) (Guo Shui Han [2009] No. 81).

*Tax Agreements*

Non-PRC resident investors residing in jurisdictions which have entered into agreements or arrangements for the avoidance of double taxation with the PRC are entitled to a reduction of the corporate income taxes imposed on the dividends received from PRC companies. The PRC currently has entered into agreements/arrangements regarding avoidance of double taxation with a number of countries and regions including the Hong Kong Special Administrative Region, the Macao Special Administrative Region, Australia, Canada, France, Germany, Japan, Malaysia, the Netherlands, Singapore, the United Kingdom and the United States. Non-PRC resident enterprises entitled to preferential tax rates in accordance with the relevant income tax agreements or arrangements may apply to the Chinese tax authorities for a refund of the corporate income tax in excess of the agreed tax rate, and the refund payment is subject to approval by the Chinese tax authorities.

**Taxation on Share Transfer**

***Value-Added Tax ("VAT") and Local Surcharges***

Pursuant to the Notice on the Full Implementation of Pilot Program for Transition from Business Tax to VAT (《關於全面推開營業稅改徵增值稅試點的通知》) (Cai Shui [2016] No. 36) ("Circular 36"), effective from May 1, 2016, entities and individuals engaged in sales of services within the PRC shall be subject to VAT and "sales of services within the PRC" refer to the situation where either the seller or the buyer of a taxable service is located within the PRC. Circular 36 also provides that transfer of financial products, including transfer of the ownership of marketable securities, shall be subject to VAT at 6% on the taxable turnover (which is the balance of sales price upon deduction of purchase price), for a general or a foreign VAT taxpayer; however, individuals are exempt from VAT upon transfer of financial products.

In accordance with these rules, upon the sale or disposal of H shares, the holders are exempt from VAT in the PRC if they are non-resident individuals; in case the holders are non-resident enterprises, they are not subject to the VAT in the PRC if the purchasers of the H shares are individuals or entities located outside of the PRC whereas the holders may be subject to the VAT in the PRC if the purchasers of the H shares are individuals or entities located in the PRC.

However, in the absence of explicit rules, there remains uncertainty in the interpretation and application of the foregoing rules as to whether the disposal of H Shares by non-PRC resident enterprises is subject to PRC VAT.

Meanwhile, VAT taxpayers are also subject to urban maintenance and construction tax, education surcharge and local education surcharge (collectively, "local surcharges"), which is usually at 12% of the VAT payable, if any.

***Income Tax***

***Individual Investors***

According to the IIT Law and the Regulations on Implementation of the IIT Law of the PRC, gains realized on the sale of equity interests in the PRC resident enterprises are subject to the individual income tax at a rate of 20%.

Pursuant to the Circular of the MOF and the SAT Declaring that Individual Income Tax Continues to be Exempted over Income of Individuals from Transfer of Shares (《財政部、國家稅務總局關於個人轉讓股票所得繼續暫免徵收個人所得稅的通知》) (Cai Shui Zi [1998] No. 61) issued by the MOF and the SAT on March 30, 1998, from January 1, 1997, income of individuals from transfer of shares in listed enterprises continues to be exempted from individual income tax. The SAT has not stated whether it will continue to exempt individual income tax on income of individuals from transfer of listed shares in the latest amended IIT Law and its implementation regulations.

However, on December 31, 2009, the MOF, the SAT and CSRC jointly issued the Circular on Related Issues on Collection of Individual Income Tax over the Income Received by Individuals from Transfer of Listed Shares Subject to Sales Limitation (《關於個人轉讓上市公司限售股所得徵收個人所得稅有關問題的通知》) (Cai Shui [2009] No. 167) which became effective from January 1, 2010 and states that individuals' income from transfer of listed shares obtained from the public offering of listed companies and the transfer market on the Shanghai Stock Exchange and Shenzhen Stock Exchange shall continue to be exempted from individual income tax, except for the relevant shares which are subject to sales restriction (as defined in Supplementary Notice on Issues Concerning the Levy of Individual Income Tax on Individuals' Income from the Transfer of Restricted Stocks of Listed Companies (《關於個人轉讓上市公司限售股所得徵收個人所得稅有關問題的補充通知》) (Cai Shui [2010] No. 70), which was jointly issued by the MOF, the SAT and CSRC on November 10, 2010). As of the Latest Practicable Date, no aforesaid provisions have expressly provided that whether individual income tax shall be collected from non-Chinese resident individuals on the transfer of shares in PRC resident enterprises listed on overseas stock exchanges, and to the best of our knowledge, in practice such tax has not been collected by the PRC tax authorities.

***Enterprise Investors***

In accordance with the CIT Law and its implementation provisions, a non-resident enterprise is generally subject to a 10% corporate income tax on PRC-sourced income, including gains derived from the disposal of equity interests in a PRC resident enterprise, if it does not have an establishment or place in the PRC or has an establishment or premise in the PRC but the PRC-sourced income is not connected in reality with such establishment or premise. Such income tax for non-resident enterprises are deducted at source, where the payer of the income are required to withhold the income tax from the amount to be paid to the non-resident enterprise when such payment is made or due. The withholding tax may be reduced or exempted pursuant to applicable treaties or agreements on avoidance of double taxation.

***Stamp Duty***

Pursuant to the Provisional Regulations of the PRC Concerning Stamp Duty (《中華人民共和國印花稅暫行條例》) issued on August 6, 1998 and amended on January 8, 2011, and the Detailed Rules for Implementation of Provisional Regulations of the PRC Concerning Stamp Duty (《中華人民共和國印花稅暫行條例施行細則》) effective from October 1, 1988, PRC stamp duty only applies on specific proof executed or received within the PRC and having legally binding force in the PRC and protected under the PRC laws, thus the requirements of the stamp duty imposed on the transfer of shares of PRC listed companies shall not apply to the acquisition and disposal of H Shares by non-PRC investors outside of the PRC.

***Estate Duty***

As of the Latest Practicable Date, no estate duty has been levied in China under the PRC laws.

## B. Hong Kong Taxation

***Tax on Dividends***

Under the current practice of the Inland Revenue Department of Hong Kong, no tax is payable in Hong Kong in respect of dividends paid by us.

***Profit Tax***

No profit tax is imposed in Hong Kong in respect of the sale of H shares. However, trading profits from the sale of the H shares by persons carrying on any industry, profession or business in Hong Kong, where such profits are derived from or arise in Hong Kong from such industry, profession or business will be subject to Hong Kong profits tax. Trading profits from sales of the H shares effected on the Hong Kong Stock Exchange will be considered to be derived from or arise in Hong Kong. Liability for Hong Kong profits tax would thus arise in respect of trading profits from sales of H shares effected on the Hong Kong Stock Exchange realized by persons carrying on a business of trading or dealing in securities in Hong Kong. The trading profits from sales of the H shares for certain categories of taxpayers are likely to be regarded as deriving trading profits rather than capital gains (for example, financial institutions, insurance companies and securities dealers) unless these taxpayers can prove that the investment securities are held for long-term investment purposes.

Currently, the profit tax rate for the first HK$2 million of assessable profits of an incorporated company is 8.25%, and profits above such amount is subject to a tax rate of 16.5%. The profit tax rate for the first HK$2 million of assessable profits of an unincorporated company is 7.5%, and profits above such amount is subject to a tax rate of 15%.

***Stamp Duty***

Hong Kong stamp duty shall be paid on the sale or purchase of H Shares at the current tax rate of 0.26% of the consideration for, or (if greater) the value of, the H Shares being sold or purchased, whether or not the sale or purchase is made on the Hong Kong Stock Exchange or otherwise. In addition, a fixed duty of HK$5.00 is currently payable on any instrument of transfer of H Shares.

Where one of the parties is a resident outside Hong Kong and does not pay the ad valorem duty due by it, the duty not paid will be assessed on the instrument of transfer (if any) and will be payable by the transferee. If no stamp duty is paid on or before the due date, a penalty of up to 10 times the duty payable may be imposed.

***Estate Duty***

Hong Kong estate duty was abolished with effective from February 11, 2006. No Hong Kong estate duty is payable by a holders of H Shares whose death occurs on or after February 11, 2006.

## 2. PRINCIPAL TAXATION OF OUR BANK BY THE PRC

**Corporate Income Tax**

Pursuant to the CIT Law, enterprises and other organizations which generate income within the PRC are corporate income tax payers and shall pay corporate income tax at a tax rate of 25%.

**Business Tax/Appreciation Tax**

Pursuant to the Provisional Regulations of the PRC on Business Tax (《中華人民共和國營業稅暫行條例》), which became effective on January 1, 1994, subsequently amended on November 10, 2008 and implemented on January 1, 2009, banks engaging in banking activities within the PRC shall be subject to a 5% business tax.

Pursuant to Notice on Implementing the Pilot Reform for Transition from Business Tax to Value-added Tax Nationwide issued by the MOF and SAT (《財政部、國家稅務總局 關於全面推開營業稅改徵增值稅試點的通知》) (Cai Shui [2016] No. 36) promulgated on March 23, 2016 and effective from May 1, 2016, from May 1, 2016 onwards, the pilot reform for the transition from business tax to VAT is implemented nationwide, and the financial industry is included in such pilot and is required to pay VAT instead of Business Tax. Pursuant to the Implementation Measures for Transition from Business Tax to Value-added Tax (《營業稅改徵增值稅試點實施辦法》), the appendix to the aforesaid notice, unless otherwise provided in the implementation measures, the tax rate is generally 6% for tax payers who conducted taxable behaviors. The Bank started to calculate and pay VAT instead of business tax since May 1, 2016.

## 3. TAXATION OF OUR BANK IN HONG KONG

Our Directors consider that none of our Bank's income is derived from or arises in Hong Kong. Our Bank is therefore not subject to Hong Kong taxation.

## 4. FOREIGN EXCHANGE

The lawful currency of the PRC is the Renminbi, which is currently subject to foreign exchange control and is not freely convertible into foreign exchange. The SAFE, under the authorization of the PBOC, is empowered with the functions of administering all matters relating to foreign exchange, including the enforcement of foreign exchange control regulations.

On January 29, 1996, the State Council promulgated Regulations of the PRC for Foreign Exchange Control (《中華人民共和國外匯管理條例》) (the "Foreign Exchange Control Regulations") which was implemented on April 1, 1996. The Foreign Exchange Control Regulations classifies all international payments and transfers into current items and capital items. Most of the current items are no longer subject to SAFE's approval, while capital items still are subject to such approval. The Foreign Exchange Control Regulations were subsequently amended on January 14, 1997 and August 1, 2008, pursuant to which no restriction will be imposed on international current payments and transfers in the PRC.

On June 20, 1996, PBOC promulgated the Regulations for the Administration of Settlement, Sale and Payment of Foreign Exchange (《結匯、售匯及付匯管理規定》) (the "Settlement Regulations") which became effective on July 1, 1996. The Settlement Regulations abolished the remaining restrictions on convertibility of foreign exchange under current items, while retaining the existing restrictions on foreign exchange transactions under capital account items.

According to the Announcement on Issues regarding Improving the Reform of the Renminbi (《關於完善人民幣匯率形成機制改革的公告》) (PBOC Announcement [2005] No. 16), issued by PBOC on July 21, 2005 and implemented on the same date, with effect from July 21, 2005, the PRC began to implement a managed floating exchange rate system in which the exchange rate would be determined based on market supply and demand and adjusted with reference to a basket of currencies. The Renminbi exchange rate was no longer pegged solely to the U.S. dollar. PBOC would publish the closing price of the exchange rate of the Renminbi against trading currencies such as the U.S. dollar in the interbank foreign exchange market after the closing of the market on each working day, as the central parity of the currency against Renminbi transactions on the following working day.

Starting from January 4, 2006, PBOC introduced over-the-counter transactions into the interbank spot foreign exchange market for the purpose of improving the formation mechanism of the central parity of Renminbi exchange rates, and the practice of matching was kept at the same time. In addition to the above, PBOC introduced the market-maker rule to provide liquidity to the foreign exchange market. On July 1, 2014, PBOC further improved the formation mechanism of the RMB exchange rate by authorizing the China Foreign Exchange Trade Center to make inquiries with the market makers before the interbank foreign exchange market opens every day for their offered quotations which are used as samples to calculate the central parity of the RMB against the USD on that day using the weighted average of the remaining market makers' offered quotations after excluding the highest and lowest quotations, and announce the central parity of the RMB against currencies such as the USD at 9:15 a.m. on each working day. On August 11, 2015, PBOC announced to improve the central parity quotations of RMB against the USD by authorizing market-makers to provide central parity quotations to the China Foreign Exchange Trading Center before the interbank foreign exchange market opens every day with reference to the interbank foreign exchange market closing rate of the previous day, the supply and demand for foreign exchange as well as changes in major international currency exchange rates.

On August 5, 2008, the State Council promulgated the revised Regulations for Foreign Exchange Control, which have made substantial changes to the foreign exchange supervision system of the PRC. First, it has adopted an approach of balancing the inflow and outflow of foreign exchange. Foreign exchange income received overseas can be repatriated or deposited overseas, and foreign exchange and settlement funds under the capital account are required to be used only for purposes as approved by the competent authorities and foreign exchange administrative authorities; second, it has improved the RMB exchange rate system based on market supply and demand under management; third, in the event that international balance of payment suffer or may suffer a material misbalance, or the national economy encounters or may encounter a severe crisis, the State may adopt necessary safeguard or control measures against international balance of payment; fourth, it has enhanced the supervision and administration of foreign exchange transactions and grant extensive authorities to the SAFE to enhance its supervisory and administrative powers.

According to the relevant laws and regulations in the PRC, PRC enterprises (including foreign-invested enterprises) which need foreign exchange for current item transactions may, without the approval of the SAFE, effect payment from foreign exchange accounts at the designated foreign exchange banks, on the strength of valid transaction receipt or evidence. Foreign-invested enterprises which need foreign exchange for the distribution of profits to their shareholders and PRC enterprises which, in accordance with regulations, are required to pay dividends to their shareholders in foreign exchange (such as our Bank) may, on the strength of resolutions of the board of directors or the shareholders' general meeting on the distribution of profits, effect payment from foreign exchange accounts at the designated foreign exchange banks or effect exchange and payment at the designated foreign exchange banks.

On October 23, 2014, the State Council promulgated the Decisions on Matters including Canceling and Adjusting a Batch of Administrative Approval Items (《國務院關於取消和調整一批行政審批項目等事項的決定》) (Guo Fa [2014] No. 50), which canceled the approval requirement of the SAFE and its branches for the remittance and settlement of the proceeds raised from the overseas listing of the foreign shares into RMB domestic accounts.

On December 26, 2014, the SAFE issued and implemented the Notice of the State Administration of Foreign Exchange on Issues Concerning the Foreign Exchange Administration of Overseas Listing (《國家外匯管理局關於境外上市外匯管理有關問題的通知》) (Hui Fa [2014] No. 54), pursuant to which a domestic company shall, within 15 working days of the date of the end of its overseas listing issuance, register the overseas listing with the SAFE's local branch at the place of its establishment; the proceeds from an overseas listing may be remitted to the domestic account or deposited in an overseas account, but the use of the proceeds shall be consistent with the content of the prospectus and other disclosure documents.

On February 13, 2015, the SAFE issued the Notice of the State Administration of Foreign Exchange on Further Simplifying and Improving Policies for the Foreign Exchange Administration of Direct Investment (《國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知》) (Hui Fa [2015] No. 13) which became effective from June 1, 2015. The notice has canceled the confirmation of foreign exchange registration under domestic direct investment and the confirmation of foreign exchange registration under overseas direct investment, instead, banks shall directly examine and handle foreign exchange registration under domestic direct investment and foreign exchange registration under overseas direct investment, and the SAFE and its branch offices shall indirectly regulate the foreign exchange registration of direct investment through banks.

According to the Notice of the State Administration of Foreign Exchange of the PRC on Revolutionize and Regulate Capital Account Settlement Management Policies (《國家外匯管理局關於改革和規範資本項目結匯管理政策的通知》) (Hui Fa [2016] No. 16) issued and implemented by the SAFE on June 9, 2016, foreign currency earnings in capital account that relevant policies of willingness exchange settlement have been clearly implemented on (including the recalling of raised capital by overseas listing) may undertake foreign exchange settlement in the banks according to actual business needs of the domestic institutions. The tentative percentage of foreign exchange settlement for foreign currency earnings in capital account of domestic institutions is 100%, subject to adjust of the SAFE in due time in accordance with international revenue and expenditure situations.

According to the Notice of the State Administration of Foreign Exchange of the PRC on Further Promoting the Reform of Foreign Exchange Administration and Improving the Examination of Authenticity and Compliance (《國家外匯管理局關於進一步推進外匯管理改革完善真實合規性審核的通知》) (Hui Fa [2017] No. 3) issued by the SAFE on January 26, 2017, the scope of settlement for domestic foreign exchange loans has been further expanded to allow settlement for domestic foreign exchange loans with export background under goods trading; to allow repatriation of funds under domestic guaranteed foreign loans for domestic utilization; to allow settlement for domestic foreign exchange accounts of foreign institutions operating in the Free Trade Pilot Zones, and to adopt the model of full-coverage RMB and foreign currency overseas lending management, where a domestic institution engages in overseas lending, the sum of its outstanding overseas lending in RMB and outstanding overseas lending in foreign currencies shall not exceed 30% of its owner's equity in the audited financial statements of the preceding year.

## 1. FURTHER INFORMATION ABOUT OUR BANK

### A. Incorporation

Our Bank was incorporated as a joint stock limited company under the name "Dongguan Rural Commercial Bank Co., Ltd." in the PRC on December 22, 2009 under the PRC Company Law. Our registered address is No.2, Hongfu East Road, Dongcheng District, Dongguan City, Guangdong Province, PRC.

Our Bank has established a principal place of business in Hong Kong at 40/F, Dah Sing Financial Centre, 248 Queen's Road East, Wanchai, Hong Kong and has been registered as a non-Hong Kong company under Part 16 of the Companies Ordinance on March 6, 2020. Mr. Wong Wai Chiu has been appointed as our authorized representative for the acceptance of service of process and notices on behalf of us in Hong Kong. Our address for acceptance of service of process in Hong Kong is the same as the address of our principal place of business in Hong Kong.

We conduct our banking business in the PRC under the supervision and regulation of PBoC and CBIRC. We are not an authorized institution within the meaning of the Banking Ordinance, and are not subject to the supervision of the HKMA, nor authorized to carry on banking or deposit-taking business in Hong Kong.

As we are incorporated in the PRC, our corporate structure and Articles of Association are subject to the relevant laws and regulations of the PRC. A summary of certain relevant aspects of the laws and regulations of the PRC and a summary of the relevant provisions of our Articles of Association are set out in Appendix IV and Appendix V to this prospectus.

### B. Changes in Share Capital

At the time of establishment, the registered capital of our Bank was RMB4,312,888,438, divided into 4,312,888,438 Domestic Shares of RMB1.00 each. Changes in our share capital since our establishment up to the Latest Practicable Date, based on the date of the registration procedure with the relevant authority and obtaining new business license with the increased share capital, are as follows:

(a) on May 17, 2011, our registered capital was increased by RMB431,288,843 to RMB4,744,177,281 by way of capitalization of the undistributed profits of our Bank and allotment of 431,288,843 Domestic Shares to our then Shareholders on a ten existing Domestic Shares to one new Domestic Share basis;

(b) on August 10, 2012, our registered capital was increased by RMB474,417,728 to RMB5,218,595,009 by way of capitalization of the undistributed profits of our Bank and allotment of 474,417,728 Domestic Shares to our then Shareholders on a ten existing Domestic Shares to one new Domestic Share basis; and

(c) on November 27, 2013, our registered capital was increased by RMB521,859,501 to RMB5,740,454,510 by way of capitalization of the undistributed profits of our Bank and allotment of 521,859,501 Domestic Shares to our then Shareholders on a ten existing Domestic Shares to one new Domestic Share basis.

As at the Latest Practicable Date, our registered capital was RMB5,740,454,510, divided into 5,740,454,510 Domestic Shares of RMB1.00 each. During the two years preceding the date of this prospectus, there had been no alteration in our registered capital.

Assuming that the Global Offering becomes unconditional, immediately following completion of the Global Offering, without taking into any H Share which may be issued upon exercise of the Over-allotment Option, our registered capital will be RMB6,888,545,510, consisting of 5,740,454,510 Domestic Shares and 1,148,091,000 H Shares, which represent approximately 83.33% and 16.67% of our total issued capital, respectively.

### C. Restriction on Share Repurchase

Details of the restrictions on Share repurchase by our Bank are set out in the paragraphs headed “Power of our Bank to Repurchase its own Shares” in Appendix V — Summary of Articles of Association to this prospectus.

### D. Resolutions of Our Shareholders

Pursuant to the resolutions passed at the Shareholders’ general meeting on April 25, 2019 and April 23, 2021:

(a) the Global Offering, the Listing and the granting of the Over-allotment Option were approved;

(b) our Board of Directors and person(s) authorized by our Board of Directors were authorized to handle all matters relating to the Listing; and

(c) subject to the approval of the relevant regulatory department(s), the amended Articles of Association were adopted with effect from the Listing.

## 2. PARTICULARS AND CHANGES IN THE SHARE CAPITAL OF OUR SUBSIDIARIES

Details of our subsidiaries are set forth in Note 19 to the Accountant’s Report in Appendix I to this prospectus.

There has been no alteration in the registered capital of our subsidiaries within the two years preceding the date of this prospectus.

## 3. FURTHER INFORMATION ABOUT OUR BUSINESS

### A. Summary of Material Contracts

We have entered into the following contracts (not being contracts entered into in our ordinary course of business) within the two years preceding the date of this prospectus which are or may be material:

(a) the Parties Acting in Concert Agreement (《一致行動人協議》) dated March 20, 2020 entered into among Dongguan Rural Commercial Bank Co., Ltd. (東莞農村商業銀行股份有限公司), Dongguan City Royal Garden Hotel Co., Ltd.* (東莞市帝豪花園酒店有限公司), Dongguan City Xingye Knitting Co., Ltd.* (東莞市興業針織有限公司), Liu Shaoyong (劉紹勇) and Xie Queping (謝雀平), pursuant to which the parties agreed to (i) act in concert in shareholders’ meetings and board of directors’ meetings when exercising the rights stipulated in the PRC Company Law (公司法) and articles of association and complying with the obligations as a legal shareholders of Dongguan Dalang Dongying Rural Commercial Bank Co., Ltd.* (東莞大朗東盈村鎮銀行股份有限公司) and (ii) discuss with each other prior to making proposal to the shareholders' meeting or exercising voting rights in shareholders' meeting, and in case of difference in opinions, the opinion of Dongguan Rural Commercial Bank Co., Ltd. shall prevail, for a term of three years which shall automatically be extended for terms of three years perpetually upon expiry thereafter provided that there is no objection from the parties;

(b) the Property Made-to-order Agreement (《物業定制協議》) dated December 6, 2019 entered into between Guangdong Hongyuan Group Industry Development Co., Ltd.* (廣東宏遠集團產業發展有限公司) and Dongguan Rural Commercial Bank Co., Ltd. (東莞農村商業銀行股份有限公司), pursuant to which Dongguan Rural Commercial Bank Co., Ltd. (東莞農村商業銀行股份有限公司) agreed to order first floor to sixteenth floor of R&D Building No. 3 (第3號研發樓) in Hongyuan International Artificial Intelligence (AI) Industry Center Phase 1 (宏遠國際人工智能（AI）產業中心一期) located on the south side of Kechuang Road, Nancheng Jiedao, Dongguan City (東莞市南城街道科創路南側) at the consideration of RMB478,798,581;

(c) the cornerstone investment agreement (《基石投資協議》) dated September 13, 2021 entered into between Dongguan Rural Commercial Bank Co., Ltd. (東莞農村商業銀行股份有限公司), Fook Man Development Company Limited (福民發展有限公司), China Merchants Securities (HK) Co., Limited (招商證券（香港）有限公司), CMB International Capital Limited (招銀國際融資有限公司), ABCI Capital Limited (農銀國際融資有限公司), ICBC International Capital Limited (工銀國際融資有限公司) and Fortune (HK) Securities Limited (富強證券有限公司) pursuant to which Fook Man Development Company Limited agreed to subscribe for H shares of Dongguan Rural Commercial Bank Co., Ltd. (東莞農村商業銀行股份有限公司) at the Offer Price in an aggregate amount of HK$1,000,000,000 (excluding brokerage and levy); and

(d) the Hong Kong Underwriting Agreement.

## B. Intellectual Property Rights

### *(a) Trademarks*

As at the Latest Practicable Date, we were the registered owner of, and had the right to use, the following trademarks which may be material to our business:

| No. | Trademark | Place of registration | Trademark no. | Registered owner | Class(es) | Valid period |
|---|---|---|---|---|---|---|
| 1. | 东莞农村商业银行 DRC Bank | PRC | 8069639 | Our Bank | 36 | February 7, 2014 to February 6, 2024 |
| 2. | 东莞农村商业银行 DRC Bank | PRC | 20256174 | Our Bank | 36 | July 28, 2017 to July 27, 2027 |
| 3. | 东莞农村商业银行 DRC Bank | Hong Kong | 304552993 | Our Bank | 36 | June 6, 2018 to June 5, 2028 |

| No. | Trademark | Place of registration | Trademark no. | Registered owner | Class(es) | Valid period |
|---|---|---|---|---|---|---|
| 4. | DRC Bank | Hong Kong | 304553000 | Our Bank | 36 | June 6, 2018 to June 5, 2028 |
| 5. | | PRC | 33175323 | Our Bank | 36 | December 28, 2019 to December 27, 2029 |
| 6. | | PRC | 26806274 | Our Bank | 36 | December 14, 2018 to December 13, 2028 |
| 7. | 创富理财 | PRC | 10121662 | Our Bank | 35 | April 21, 2013 to April 20, 2023 |
| 8. | 莞商通 | PRC | 13876939 | Our Bank | 36 | April 21, 2015 to April 20, 2025 |
| 9. | 荷包社区 | PRC | 20096516 | Our Bank | 36 | October 14, 2017 to October 13, 2027 |
| 10. | 添一点 上荷包 | PRC | 20096631 | Our Bank | 36 | July 14, 2017 to July 13, 2027 |
| 11. | | PRC | 20096697 | Our Bank | 36 | July 14, 2017 to July 13, 2027 |
| 12. | 基智宝 | PRC | 27257115 | Our Bank | 36 | December 14, 2018 to December 13, 2028 |
| 13. | | PRC | 28698954 | Our Bank | 35 | December 14, 2018 to December 13, 2028 |
| 14. | | PRC | 28701163 | Our Bank | 36 | December 21, 2018 to December 20, 2028 |
| 15. | | PRC | 28702686 | Our Bank | 41 | December 14, 2018 to December 13, 2028 |
| 16. | | PRC | 28746285 | Our Bank | 36 | December 14, 2018 to December 13, 2028 |
| 17. | | PRC | 28747541 | Our Bank | 35 | December 14, 2018 to December 13, 2028 |
| 18. | | PRC | 28752389 | Our Bank | 41 | December 14, 2018 to December 13, 2028 |

| No. | Trademark | Place of registration | Trademark no. | Registered owner | Class(es) | Valid period |
|---|---|---|---|---|---|---|
| 19. | | PRC | 34586324 | Our Bank | 16 | June 28, 2019 to June 27, 2029 |
| 20. | | PRC | 34572748 | Our Bank | 36 | June 28, 2019 to June 27, 2029 |
| 21. | 东莞农村商业银行 DRC Bank | Hong Kong | 305404815 | Our Bank | 36 | November 16, 2020 to November 15, 2030 |
| 22. | DRC Bank | Hong Kong | 305404824 | Our Bank | 36 | November 16, 2020 to November 15, 2030 |
| 23. | DRC Bank | Hong Kong | 305404833 | Our Bank | 36 | November 16, 2020 to November 15, 2030 |
| 24. | DRC Bank 东莞农村商业银行 | Hong Kong | 305404842 | Our Bank | 36 | November 16, 2020 to November 15, 2030 |
| 25. | DRC Bank | Hong Kong | 305404851 | Our Bank | 36 | November 16, 2020 to November 15, 2030 |

***(b) Patent***

As at the Latest Practicable Date, we were the registered owner of, and had the right to use, the following patent which may be material to our business:

| No. | Title | Place of registration | Registration no. | Registered Owner | Registration date |
|---|---|---|---|---|---|
| 1. | Smart Camcorder (智能視頻機) | PRC | ZL 2013 2 0183048. 1 | Our Bank | April 12, 2013 |

***(c) Designs***

As at the Latest Practicable Date, we were the registered owner of, and had the right to use, the following designs which may be material to our business:

| No. | Name of design | Place of registration | Registration no. | Registered owned | Registration date |
|---|---|---|---|---|---|
| 1. | Mascot Figure (吉祥物玩偶) | PRC | ZL 2018 3 0025722. 1 | Our Bank | January 19, 2018 |
| 2. | Mascot (Xiao D) (吉祥物(小D)) | PRC | ZL 2018 3 0052863. 2 | Our Bank | February 5, 2018 |

*(d) Copyrights*

As at the Latest Practicable Date, we were the registered owner of, and had the right to use, the following copyrights which may be material to our business:

| No. | Title | Place of registration | Registration no. | Registered owner | Registration date |
|---|---|---|---|---|---|
| 1. | D+ Bank Mobile Financial Service Platform (Android) System V3. 1. 8 | PRC | 2018SR301614 | Our Bank | May 3, 2018 |
| 2. | D+ Bank Mobile Financial Service Platform (IOS) System V3.1.8 | PRC | 2018SR305194 | Our Bank | May 4, 2018 |
| 3. | Dongguan Rural Commercial Bank Mobile Banking (Android) Software V1.0 | PRC | 2019SR0899032 | Our Bank | August 29, 2019 |
| 4. | Dongguan Rural Commercial Bank Mobile Banking (IOS) Software V1.0 | PRC | 2019SR0898670 | Our Bank | August 29, 2019 |
| 5. | Huaqian Youyu (花錢有餘) | PRC | 國作登字-2019-F-00718897 | Our Bank | January 29, 2019 |
| 6. | Qian Doudou (錢兜兜) | PRC | 國作登字-2018-F-00420584 | Our Bank | January 31, 2018 |
| 7. | Xiao D (小D) | PRC | 國作登字-2018-F-00420583 | Our Bank | January 31, 2018 |
| 8. | Smart Video Banking Configuration Specification | PRC | 國作登字-2013-L-00088501 | Our Bank | March 22, 2013 |

*(e) Internet domains*

As at the Latest Practicable Date, we were the registered owner of the following internet domains which may be material to our business:

| No. | Domain name | Registrant | Date of registration | Expiry date |
|---|---|---|---|---|
| 1. | drcbank.com | Our Bank | July 28, 2009 | July 28, 2025 |
| 2. | ddrcbank.com | Our Bank | October 30, 2014 | October 30, 2029 |
| 3. | drcbanko2o.com | Our Bank | September 2, 2015 | September 2, 2025 |

Save as disclosed herein, there were no other trademarks, patents or other intellectual or industrial property rights which are material to our business as at the Latest Practicable Date.

### C. Our Depositors and Borrowers

Our five largest depositors and five largest borrowers accounted for less than 30% of the respective total deposits and total loans and advances to customers as at the Latest Practicable Date.

## 4. FURTHER INFORMATION ABOUT OUR DIRECTORS, SUPERVISORS AND SUBSTANTIAL SHAREHOLDERS

### A. Substantial Shareholders

So far as our Directors are aware, immediately following the completion of the Global Offering, the following persons will have or be deemed or taken to have interests or short positions in our Shares or underlying Shares which would to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at the general meetings of any other members of our Group:

***(a) Interests or short positions in our Shares or underlying Shares***

| | | | As at the Latest Practicable Date | | Immediately following the completion of the Global Offering | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | Assuming the Over-allotment Option is not exercised | | Assuming the Over-allotment Option is exercised in full | |
| Name of Shareholder | Nature of interest | Class of Shares | Number of Shares[1] | Approximate % of interest in our Bank | Number of Shares[1] | Approximate % of the relevant class of Shares | Approximate % of interest in our Bank | Approximate % of the relevant class of Shares | Approximate % of interest in our Bank |
| Mr. Guo Huiqiang | Interest in controlled corporation[2] | Domestic Shares | 299,247,910(L) | 5.21% | 299,247,910(L) | 5.21% | 4.34% | 5.21% | 4.24% |
| Ms. Yang Miaoxia | Interest of spouse[3] | Domestic Shares | 299,247,910(L) | 5.21% | 299,247,910(L) | 5.21% | 4.34% | 5.21% | 4.24% |
| Canvest Investment | Beneficial owner | Domestic Shares | 299,246,910(L) | 5.21% | 299,246,910(L) | 5.21% | 4.34% | 5.21% | 4.24% |
| | Interest in controlled corporation[4] | Domestic Shares | 1,000(L) | | 1,000(L) | | | | |
| State-owned Assets Supervision and Administration Commission of the People's Government of Dongguan (東莞市人民政府國有資產監督管理委員會) | Interest in controlled corporation[5] | H Shares | — | — | 120,192,000[6](L) | 10.47% | 1.74% | 9.10% | 1.70% |
| Dongguan City Transportation Investment Group Co., Ltd.* (東莞市交通投資集團有限公司) | Interest in controlled corporation[5] | H Shares | — | — | 120,192,000[6](L) | 10.47% | 1.74% | 9.10% | 1.70% |
| Dongguan City Fook Man Group Company* (東莞市福民集團公司) | Interest in controlled corporation[5] | H Shares | — | — | 120,192,000[6](L) | 10.47% | 1.74% | 9.10% | 1.70% |
| Fook Man Development Company Limited | Beneficial Owner | H Shares | — | — | 120,192,000[6](L) | 10.47% | 1.74% | 9.10% | 1.70% |

Notes:

1. (L) denotes long position

2. As at the Latest Practicable Date, the entire shareholding interest of Canvest Investment was held by Mr. Guo Huiqiang. Accordingly, Mr. Guo Huiqiang is deemed to be interested in all the Shares held by Canvest Investment under the SFO.

3. Ms. Yang Miaoxia is the spouse of Mr. Guo Huiqiang. Accordingly, Ms. Yang is deemed to be interested in all the Shares that Mr. Guo is interested in under the SFO.

4. Canvest Investment is also interested in 1,000 Domestic Shares held by its 90% owned subsidiary, Guangdong Canvest Environmental Investment Co., Ltd.* (廣東粵豐環保投資有限公司).

5. Fook Man Development Company Limited is wholly-owned by Dongguan City Fook Man Group Company*, which in turn is wholly-owned by Dongguan City Transportation Investment Group Co., Ltd.*, a company wholly-owned by the State-owned Assets Supervision and Administration Commission of the People's Government of Dongguan. Accordingly, each of State-owned Assets Supervision and Administration Commission of the People's Government of Dongguan, Dongguan City Transportation Investment Group Co., Ltd.* and Dongguan City Fook Man Group Company* is deemed to be interested in all the Shares held by Fook Man Development Company Limited.

6. The percentage herein is calculated assuming the Offer Price has been determined at the mid-point of the indicative Offer Price range, being HK$8.32 per Offer Share as Fook Man Development Company Limited is our cornerstone investor who has agreed to subscribe for the Offer Shares for a prescribed monetary sum (rather than a prescribed number of Offer Shares). For details, please see "Cornerstone Investor".

### *(b) Interests in other members of the Group*

| Name of shareholder | Member of the Group concerned | Nature of interest | Registered share capital held | Approximate % of interest in the company concerned |
|---|---|---|---|---|
| Huidong County Lijing Garden Environment Design Co., Ltd.* (惠東縣麗景園林環境藝術有限公司) | Huizhou Zhongkai Dongying County Bank | Beneficial owner | RMB30,000,000 | 10% |
| Lin Baoyi (林寶怡) | Huizhou Zhongkai Dongying County Bank | Interest in controlled corporation[1] | RMB30,000,000 | 10% |
| Zhuang Jinlong (莊金龍) | Huizhou Zhongkai Dongying County Bank | Interest in controlled corporation[1] | RMB30,000,000 | 10% |
| Zhanjiang City Infrastructure Construction Investment Group Co., Ltd.* (湛江市基礎設施建設投資集團有限公司) | Zhanjiang RCB | Beneficial owner | RMB216,000,000 | 13.05% |
| State-owned Assets Supervision and Administration Commission of the People's Government of Zhanjiang City (湛江市人民政府國有資產監督管理委員會) ("**Zhanjiang SASAC**") | Zhanjiang RCB | Interest in controlled corporation[2] | RMB216,000,000 | 13.05% |

Notes:

1. As at the Latest Practicable Date, Huidong County Lijing Garden Environment Design Co., Ltd.* is owned as to 50% by Lin Baoyi and 50% by Zhuang Jinlong, respectively. Accordingly, each of Lin Baoyi and Zhuang Jinlong is deemed to be interested in the equity interest in Huizhou Zhongkai Dongying County Bank held by Huidong County Lijing Garden Environment Design Co., Ltd.*.

2. As at the Latest Practicable Date, Zhanjiang City Infrastructure Construction Investment Group Co., Ltd.* is wholly-owned by Zhanjiang SASAC. Accordingly, Zhanjiang SASAC is deemed to be interested in the equity interest in Zhanjiang RCB held by Zhanjiang City Infrastructure Construction Investment Group Co., Ltd.*.

Save as disclosed above, so far as it is known to our Directors, no person has an interest or short position in our Shares or underlying Shares which would fall to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at the general meetings of any other members of our Group.

**B. Directors and Supervisors**

***(a) Disclosure of Interest***

Save as disclosed below, immediately following the completion of the Global Offering, none of the Directors, Supervisors and the chief executive of our Bank will have any interests or short positions in the Shares, underlying Shares or debentures of our Bank or any associated corporations (within the meaning of Part XV of the SFO) which (i) will have to be notified to us and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and/or short positions which they are taken or deemed to have under such provisions of the SFO); or (ii) will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers under the Listing Rules, to be notified to us and the Hong Kong Stock Exchange; or (iii) will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein. For this purpose, the relevant provisions of the SFO shall be construed as if they are applicable to our Supervisors.

*Long position in our Shares or underlying Shares*

**Directors**

| Name of Director | Nature of interest | Class | Number of Shares | Approximate percentage of interest in our Bank[1] | Approximate percentage of the relevant class of Shares |
|---|---|---|---|---|---|
| Mr. WANG Yaoqiu | Beneficial owner | Domestic Shares | 401,210 | 0.00582% | 0.00699% |
| Mr. FU Qiang | Beneficial owner | Domestic Shares | 500,000 | 0.00726% | 0.00871% |
| Mr. YE Jianguang | Beneficial owner | Domestic Shares | 500,000 | 0.01452% | 0.01742% |
| | Interest of spouse | Domestic Shares | 500,000 | | |
| Mr. CHEN Wei | Beneficial owner | Domestic Shares | 113,907 | 0.00239% | 0.00287% |
| | Interest of spouse | Domestic Shares | 50,578 | | |
| Mr. LAI Chun Tung | Beneficial owner | Domestic Shares | 1,156,825 | 0.03982% | 0.04779% |
| | Interest in controlled corporation[2] | Domestic Shares | 1,586,277 | | |
| Mr. WANG Junyang | Interest in controlled corporation[3] | Domestic Shares | 172,389,749 | 2.50256% | 3.00307% |
| Mr. CAI Guowei | Beneficial owner | Domestic Shares | 2,281,622 | 0.03593% | 0.04311% |
| | Interest of spouse | Domestic Shares | 193,261 | | |
| Mr. YE Jinquan | Beneficial owner | Domestic Shares | 9,663,060 | 1.66259% | 1.99510% |
| | Interest in controlled corporation[4] | Domestic Shares | 104,864,996 | | |
| Mr. CHEN Haitao | Beneficial owner | Domestic Shares | 350,000 | 0.00508% | 0.00610% |
| Mr. ZHANG Qingxiang | Beneficial owner | Domestic Shares | 2,021,371 | 0.19581% | 0.23498% |
| | Interest of spouse[5] | Domestic Shares | 11,467,306 | | |
| Mr. CHEN Weiliang | Beneficial owner | Domestic Shares | 6,000 | 0.00009% | 0.00010% |

**Supervisors**

| Name of Supervisor | Nature of interest | Class | Number of Shares | Approximate percentage of interest in our Bank | Approximate percentage of the relevant class of Shares |
|---|---|---|---|---|---|
| Mr. CHEN Sheng | Beneficial owner | Domestic Shares | 32,210 | 0.00047% | 0.00056% |
| Ms. DENG Yanwen | Beneficial owner | Domestic Shares | 335,412 | 0.00487% | 0.00584% |
| Mr. WU Lixin | Beneficial owner | Domestic Shares | 335,412 | 0.02810% | 0.03372% |
| | Interest of spouse | Domestic Shares | 1,600,421 | | |
| Mr. LIANG Zhifeng | Interest of spouse | Domestic Shares | 9,664 | 0.00014% | 0.00017% |
| Mr. LU Chaoping | Interest in controlled corporation[6] | Domestic Shares | 6,442,040 | 0.09352% | 0.11222% |
| Mr. WANG Zhujin | Beneficial owner | Domestic Shares | 500,000 | 0.00726% | 0.00871% |
| Mr. LIANG Jiepeng | Beneficial owner | Domestic Shares | 2,254,714 | 0.03273% | 0.03928% |
| Mr. ZOU Zhibiao | Beneficial owner | Domestic Shares | 32,210 | 0.00047% | 0.00056% |

Notes:

1. Without taking into account of any Share which may be issued upon the exercise of the Over-allotment Option.

2. Such 1,586,277 Domestic Shares are held by Dongguan City Sanyang Shiye Development Co., Ltd.* (東莞市三陽實業發展有限公司), a company owned as to 60.0% by Mr. Lai Chun Tung. Accordingly, Mr. Lai is deemed to be interested in all the Domestic Shares held by Dongguan City Sanyang Shiye Development Co., Ltd.* under the SFO.

3. Such 172,389,749 Domestic Shares include (i) 150,104,602 Domestic Shares held by Dongguan City Kanghua Investment Group Co., Ltd.* (東莞市康華投資集團有限公司), a company owned as to 97.46% by Mr. Wang Junyang; and (ii) 22,285,147 Domestic Shares held by Dongguan City Xingye Group Co., Ltd.* (東莞市興業集團有限公司), a company owned as to 50% by Mr. Wang. Accordingly, Mr. Wang is deemed to be interested in all the Domestic Shares held by Dongguan City Kanghua Investment Group Co., Ltd.* and Dongguan City Xingye Group Co., Ltd.* under the SFO.

4. Such 104,864,996 Domestic Shares include (i) 69,784,524 Domestic Shares held by Guangdong Haide Group Co., Ltd.* (廣東海德集團有限公司) ("**Guangdong Haide**"), a company owned, among other shareholders, as to (a) 25% by Mr. Ye Jinquan; (b) 25% by Dongguan City Botong Shiye Investment Co., Ltd.* (東莞市博通實業投資有限公司), which in turn is owned as to 96% by Mr. Ye Jinquan and 4% by Ms. Deng Shaohong (鄧少紅), spouse of Mr. Ye Jinquan; (c) 25% by Dongguan City Commercial Center Development Co., Ltd.* (東莞市商業中心發展有限公司) ("**Dongguan City Commercial Center**"), which in turn is owned as to 96% by Mr. Ye Jinquan and 4% by Ms. Deng Shaohong; (d) 24% by Dongguan City Hengyi Shiye Investment Co., Ltd.* (東莞市恒億實業投資有限公司), which in turn is owned as to 51% by Guangdong Haide, 39% by Mr. Ye Jinquan and 10% by Ms. Deng Shaohong; and (e) 1% by Ms. Deng Shaohong; and (ii) 35,080,472 Domestic Shares held by Dongguan City Commercial Center. Accordingly, Mr. Ye is deemed to be interested in all the Domestic Shares held by Guangdong Haide and Dongguan City Commercial Center under the SFO.

5. Such 11,467,306 Domestic Shares include (i) 2,322,102 Domestic Shares held by the spouse of Mr. Zhang Qingxiang; and (ii) 9,145,204 Domestic Shares held by Dongguan City Dianshi Wujin Electronic Appliances Co., Ltd.* (東莞市點石五金電器有限公司), a company owned as to 50% by the spouse of Mr. Zhang. Accordingly, Mr. Zhang is deemed to be interested in all the Domestic Shares held by his spouse and Dongguan City Dianshi Wujin Electronic Appliances Co., Ltd.* under the SFO.

6. Such 6,442,040 Domestic Shares are held by Dongguan City Shenzhou Industrial Development Co., Ltd.* (東莞市神洲實業開發有限公司), a company owned as to 90% by Mr. Lu Chaoping. Accordingly, Mr. Lu is deemed to be interested in all the Domestic Shares held by Dongguan City Shenzhou Industrial Development Co., Ltd.* under the SFO.

*Interest in associated corporations*

**Director**

| Name of Director | Name of associated corporation | Nature of interest | Number of shares in the associated corporation | Approximate percentage of interest in the associated corporation |
|---|---|---|---|---|
| Mr. CHEN Wei | Zhanjiang RCB | Beneficial owner | 1,028,943 | 0.06% |
| Mr. WANG Junyang | Hezhou Babu Dongying County Bank | Interest in controlled corporation[1] | 3,125,000 | 3.125% |

Note:

1. Such 3,125,000 shares of Hezhou Babu Dongying County Bank are held by Dongguan City Dongcheng Stone Co., Ltd.* (東莞市東成石材有限公司), a company wholly owned by Dongguan City Xingye Group Co., Ltd.* (東莞市興業集團有限公司), which is in turn owned as to 50% by Mr. WANG Junyang.

***(b) Particulars of Service Contracts***

In accordance with Rules 19A.54 and 19A.55 of the Listing Rules, we have entered into a contract with each of our Directors and Supervisors in respect of, among other things, compliance with relevant laws and regulations, observation of our Articles of Association and provisions on arbitration.

Save as disclosed above, we have not entered, and do not propose to enter, into any service contract with any of our Directors or Supervisors in their respective capacities as Directors or Supervisors other than contracts expiring or determinable by the employer within one year without payment of any compensation (other than statutory compensation).

### *(c) Interests in Assets Leased to our Group*

The table below sets forth a summary of the leases entered into by our Group or otherwise subsisting during the Track Record Period in which our Directors and Supervisors have an interest:

| Date of agreement | Landlord | Tenant | Property | Floor area | Term | Monthly rent |
|---|---|---|---|---|---|---|
| June 20, 2013 | Dongguan City Dazhong Property Services Co., Ltd.* (東莞市大中物業服務有限公司)[1] | Houjie sub-branch of our Bank | Shop No. 11, 1/F Lakeview One Garden Avenue, 100 Lakeview Avenue North, Huanggang Village, Houjie, Dongguan | 74.67 sq.m. | July 1, 2013 to June 30, 2019 | July 1, 2013 to June 30, 2015: RMB5,300<br>July 1, 2015 to June 30, 2017: RMB5,618<br>July 1, 2017 to June 30, 2019: RMB5,955 |
| March 28, 2014 | Dongguan City Shenzhou Industrial Development Co., Ltd.* (東莞市神州實業開發有限公司)[2] | Humen Branch of our Bank | 300 Taibao Road, Humen, Dongguan | 449.2 sq.m. | October 1, 2014 to September 30, 2029 | October 1, 2014 to December 31, 2014: rent free<br>October 1, 2014 to September 30, 2016: RMB51,795.1<br>From October 1, 2016: RMB56,974.61; plus 10% increment every three years thereafter |
| March 31, 2018 | Guangdong Hongyuan Group Property Development Co., Ltd.* (廣東宏遠集團房地產開發有限公司)[3] | Our Bank | Left side of the entrance of Zone BC in Jiangnan Family (江南世家), Dongguan | 23 sq. m | April 1, 2018 to March 31, 2019 | RMB1,268 |
| March 22, 2018 | Dongguan City Huiyi City Commercial Development Co., Ltd.* (東莞市匯一城商業發展有限公司)[4] | Our Bank | Certain part of 1st floor, Qunlou No. 2, First International Huiyi City, 200, Hongfu Road, Nancheng District, Dongguan | 2 sq. m | February 1, 2018 to January 31, 2020 | RMB1,580<br>(plus electricity charge of RMB400) |
| April 30, 2018 | Dongguan City Dazhong Property Services Co., Ltd.* (東莞市大中物業服務有限公司)[1] | Our Bank | Shop No. D01, D02, D03, D11, D12, D13, D15, D16 on first and second floor of Manor Lakeview First Street, Lakeview No. 1, 100 Lakeview Avenue North, Huangang Village, Houjie, Dongguan | 606.32 sq. m | May 1, 2018 to April 30, 2028 | May 1, 2018 to July 31, 2018: RMB2,503.8[5]<br>August 1, 2018 to May 31, 2021: RMB19,501.8<br>June 1, 2021 to April 30, 2022: RMB29,121.8<br>May 1, 2022 to April 30, 2025: RMB31,709.8<br>May 1, 2025 to April 30, 2028: RMB34,556.8 |
| May 14, 2018 | Dongguan City Hongyuan Group Property Management Co., Ltd.* (東莞市宏遠集團物業管理有限公司)[6] | Our Bank | Right hand side outside the management office of Elite Family (精英世家) located on the Stilt level in Dongguan | 33 sq. m | April 1, 2018 to March 31, 2019 | RMB1,818 |
| January 16, 2019 | Zhang Huifang (張惠芳)[7] | Our Bank | First floor, Taihe Road Central, Tangwei Village, Shipai, Dongguan | 487 sq. m | January 1, 2018 to December 31, 2022 | 2018: RMB27,060<br>2019 and 2020: RMB29,770<br>2021 and 2022: RMB32,750 |

| Date of agreement | Landlord | Tenant | Property | Floor area | Term | Monthly rent |
|---|---|---|---|---|---|---|
| January 16, 2019 | Wang Yanlei (王彥蕾)[8] | Our Bank | First floor, Yanwo Avenue East, Yanwo Village, Shipai, Dongguan | 362 sq. m | January 1, 2018 to December 31, 2022 | 2018: RMB20,150<br>2019 and 2020: RMB22,170<br>2021 and 2022: RMB24,390 |
| April 28, 2020 | ZOU Maoqi (鄒茂祺)[9] | Our Bank | Shop 3 and 4, 11 Yinfeng Road, Nancheng District, Dongguan | 175 sq.m. | May 1, 2020 to April 30, 2025 | May 1, 2020 to April 30, 2023: RMB17,500<br>May 1, 2023 to April 30, 2025: RMB19,250 |

*Notes:*

1. A company owned as to 90% by Dazhong Investment Group Co., Ltd.* (大中投資集團有限公司) which in turn is owned as to 80% by an uncle of Mr. Wang Junyan, non-executive Director and holder of approximately 3.00307% of our Domestic Shares through controlled corporations, and 20% by an aunt of Mr. Wang Junyang. The remaining 10% equity interest of Dongguan City Dazhong Property Services Co., Ltd.* is held by an independent third party.

2. A company owned as to 90% by Mr. LU Chaoping, our Supervisor and interested in holder of approximately 0.11222% of our Domestic Shares through controlled corporations.

3. A company indirectly owned as to 19.71% by Guangdong Hongyuan Group Co., Ltd.* (廣東宏遠集團有限公司), which in turn is owned as to 30% by Mr. Chen Haitao, our non-executive Director and holder of approximately 0.00610% of our Domestic Shares, and 39% in aggregate by two brothers of Mr. Chen Haitao.

4. A company owned as to 96% by Guangdong Haide Group Co., Ltd.* (廣東海德集團有限公司) ("**Guangdong Haide**") and 4% by Guangdong Haide Eastern Commercial Management Investment Co., Ltd.* (廣東海德東方商業管理投資有限公司) ("**Haide Eastern Management**"). Guangdong Haide is owned as to (i) 25% by Mr. Ye Jinquan, our non-executive Director who is interested in approximately 1.99510% of our Domestic Shares; (ii) 25% by Dongguan City Commercial Center Development Co., Ltd.* (東莞市商業中心發展有限公司) ("**Dongguan Commercial Center**"), a company owned as to 96% by Mr. Ye Jinquan and 4% by the spouse of Mr. Ye; (iii) 25% by Dongguan City Botong Industrial Investment Co., Ltd.* (東莞市博通實業投資有限公司) , a company owned as to 96% by Mr. Ye Jinquan and 4% by the spouse of Mr. Ye; (iv) 24% by Dongguan City Hengyi Industrial Investment Co., Ltd.* (東莞市恒億實業投資有限公司) ("**Dongguan Hengyi**") , a company owned as to 51% by Guangdong Haide, 39% by Mr. Ye Jinquan and 10% by the spouse of Mr. Ye; and (v) 1% by the spouse of Mr. Ye. Haide Eastern Management is owned as to (i) 80% by Guangdong Haide Eastern Holding Co., Ltd.* (廣東海德東方控股有限公司), a company in turn owned as to 70% by Guangdong Haide and 30% by Dongguan Commercial Center; and (ii) 20% by Dongguan Hengyi.

5. Our Bank is only required to pay the management fee during such rent-free period.

6. A company indirectly owned as to 30% by Mr. Chen Haitao, our non-executive Director and holder of approximately 0.00610% of our Domestic Shares, and 39% in aggregate by two brothers of Mr. Chen Haitao.

7. The spouse of Mr. Wang Zhujin, our Supervisor and holder of approximately 0.00871% of our Domestic Shares.

8. The daughter of Mr. Wang Zhujin, our Supervisor and holder of approximately 0.00871% of our Domestic Shares.

9. The father of Mr. Zhou Zhibiao, our Supervisor and holder of approximately 0.00056% of our Domestic Shares.

### *(d) Emoluments*

The aggregate emoluments (including fees, salaries, discretionary bonus, subsidies and physical benefits and pension plan contributions) paid by our Group to our Directors and Supervisors for the year ended December 31, 2020 was approximately RMB33.2 million. Details of the remuneration of our Directors and Supervisors during the Track Record Period are set out in Note 11 to the Accountant's Report in Appendix I to this prospectus.

Based on the prevailing arrangements currently in force, it is estimated that the aggregate emoluments and benefits in kind (before tax) to be paid to our Directors and Supervisors by our Group will be approximately RMB30.9 million for the year ending December 31, 2021.

***(e) Personal Guarantees***

No Director or Supervisor has provided personal guarantees for the benefit of the lenders in connection with any banking facilities granted to our Group.

**C. Agency Fees or Commissions Paid or Payable**

Save as disclosed in this prospectus, none of the Directors, Supervisors or any of the persons whose names are listed in "— 5. Other Information — E. Qualification of Experts" below had received any commissions, discounts, agency fees, brokerages or other special terms from us in connection with the issuance or sale of any our capital within the two years preceding the date of this prospectus.

**D. Disclaimers**

None of our Directors or Supervisors is a director or employee of a company which has an interest in our share capital that has to be disclosed pursuant to Divisions 2 and 3 of Part XV of the SFO after the Listing as at the date of this prospectus.

## 5. OTHER INFORMATION

**A. Estate Duty**

Our Directors have been advised that currently there is no material liability for estate duty under PRC law that is likely to be imposed on us.

**B. Litigation**

Save as disclosed in "Business — Legal and Regulatory Matters", our Group is not involved in any litigation, arbitration or administrative proceedings of material importance and, so far as we are aware, no litigation, arbitration or administrative proceedings of material importance is pending or threatened against us as of the Latest Practicable Date.

**C. Joint Sponsors**

The Joint Sponsors have made an application on our behalf to the Listing Committee of the Hong Kong Stock Exchange for the listing of, and permission to deal in, our H Shares. All necessary arrangements have been made to enable the securities to be admitted into CCASS.

Each of the Joint Sponsors has confirmed that it satisfies the independence criteria set out in Rule 3A.07 of the Listing Rules. The Joint Sponsors will charge a total amount of RMB3.0 million to act as the sponsor in connection with the Listing.

### D. Preliminary Expenses

Our Bank has not incurred any material preliminary expense.

### E. Qualification of Experts

The qualifications of the experts (as defined under the Listing Rules and the Companies (Winding Up and Miscellaneous Provisions) Ordinance) who have given opinions or advice in this prospectus are as follows:

| Name | Qualification |
|---|---|
| China Merchants Securities (HK) Co., Limited | A licensed corporation to conduct Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) of the regulated activities under the SFO |
| CMB International Capital Limited | A licensed corporation to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO |
| ABCI Capital Limited | A licensed corporation to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) of the regulated activities as defined under the SFO |
| ICBC International Capital Limited | A licensed corporation to conduct Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) of the regulated activities as defined under the SFO |
| C&T Partners | Legal advisors on PRC laws |
| PricewaterhouseCoopers | Certified Public Accountants under Professional Accountant Ordinance (Chapter 50 of the Laws of Hong Kong) and Registered Public Interest Entity Auditor under Financial Reporting Council Ordinance (Chapter 588 of the Laws of Hong Kong) |

Save in connection with the Hong Kong Underwriting Agreement and the International Underwriting Agreement, each of the experts listed above (i) does not have any interest, either direct or indirect, in our promotion, or in any assets which have been, within the two years immediately preceding the date of this prospectus, acquired or disposed of by or leased to any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group, (ii) is not materially interested in any contract or arrangement subsisting as at the date of this prospectus which is significant to our business, and (iii) does not have any shareholding in any member of our Group nor the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group.

## F. Consent of Experts

Each of the experts as referred to in the section headed "E. Qualification of Experts" above in this Appendix has given and has not withdrawn its written consent to the issue of this prospectus with the statement(s) made by it and/or contained in its report and/or letter and/or opinion (as the case may be) and references to its name included herein in the form and context in which it is included.

## G. Binding Effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

## H. Other Disclaimers

Save as disclosed in this prospectus:

(a) none of the Directors or Supervisors is:

  (i) interested in our promotion, or in any assets which have, within the two years immediately preceding the date of this prospectus, been acquired or disposed of by or leased to us, or are proposed to be acquired or disposed of by or leased to any member of our Group; or

  (ii) materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant to our business;

(b) within the two years preceding the date of this prospectus, (i) we have not issued nor agreed or proposed to issue any share or loan capital as fully or partly paid up either for cash or for a consideration other than cash; (ii) no commission, other than the commission to the Underwriters and the commission of approximately RMB4.2 million paid or payable during the two years ended March 31, 2021 in connection with issuance of the bonds set forth under "History, Development and Corporate Structure — Corporate Structure — Issuance of Bonds", had been paid or payable for subscribing or agreeing to subscribe, or procuring or agreeing to procure subscriptions, for any share in or debentures of our Bank; and (iii) no commission, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any capital of any member of our Group;

(c) no share or loan capital is under option or is agreed conditionally or unconditionally to be put under option;

(d) we have not issued nor agreed to issue any founder shares, management shares or deferred shares;

(e) none of our equity and debt securities is listed or dealt with on any other stock exchange nor is any listing or permission to deal being or proposed to be sought;

(f) there are no arrangements under which future dividends are waived or agreed to be waived;

(g) there are no contracts for hire or hire purchase of any plant to or by us for a period of over one year which are substantial in relation to our business;

(h) there have been no interruptions in our business which may have or have had a significant effect on our financial position in the last 12 months;

(i) there are no restrictions affecting the remittance of profits or repatriation of capital by us into Hong Kong from overseas;

(j) we have no outstanding convertible debt securities; and

(k) we currently do not intend to apply for the status of a Sino-foreign investment joint stock limited company and do not expect to be subject to the Sino-foreign Joint Venture Law of the PRC.

**I. Bilingual Prospectus**

The English language and Chinese language versions of this prospectus are being published separately in reliance upon the exemption provided by section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

**J. Promoters**

Our promoters comprised 69 corporate shareholders and 57,842 individual shareholders of the former Dongguan Rural Credit Cooperatives Union. For details, please see "History, Development and Corporate Structure" of this prospectus.

Save for the Global Offering and as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus, no cash, securities or other benefits has been paid, allotted or given, or has been proposed or intended to be paid, allotted or given, to any of the promoters above in connection with the Global Offering or the transactions described in this prospectus.

## 1. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to a copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were:

(a) the Green Application Form;

(b) the written consents referred to in the paragraph headed "5. OTHER INFORMATION — F. Consent of Experts" in Appendix VII to this prospectus; and

(c) copies of each of the material contracts referred to in the paragraph headed "3. FURTHER INFORMATION ABOUT OUR BUSINESS — A. Summary of Material Contracts" in Appendix VII to this prospectus.

## 2. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of King & Wood Mallesons at 13th Floor, Gloucester Tower, The Landmark, 15 Queen's Road Central, Central, Hong Kong during normal business hours from 9:00 a.m. to 5:00 p.m. up to and including the date which is 14 days from the date of this prospectus:

(a) the Articles of Association;

(b) the accountant's report of our Group from PricewaterhouseCoopers in respect of the consolidated financial information of our Group for each of the three years ended December 31, 2018, 2019 and 2020 and the three months ended March 31, 2021, the text of which is set forth in Appendix I to this prospectus;

(c) the audited consolidated financial statements of our Bank for each of the three years ended December 31, 2018, 2019 and 2020 and the three months ended March 31, 2021;

(d) the unaudited supplementary financial information of our Group, the text of which is set out in Appendix II to this prospectus;

(e) the report from PricewaterhouseCoopers in respect of the unaudited pro forma financial information of our Bank, the text of which is set forth in Appendix III to this prospectus;

(f) the material contracts referred to in the paragraph headed "3. FURTHER INFORMATION ABOUT OUR BUSINESS — A. Summary of Material Contracts" in Appendix VII to this prospectus;

(g) the written consents referred to in the paragraph headed "5. OTHER INFORMATION — F. Consent of Experts" in Appendix VII to this prospectus;

(h) the legal opinion issued by C&T Partners in respect of, among other things, general matters and property interests of our Bank;

(i) the service contracts referred to in the paragraph headed "4. FURTHER INFORMATION ABOUT OUR DIRECTORS, SUPERVISORS AND SUBSTANTIAL SHAREHOLDERS — B. Directors and Supervisors — (b) Particulars of Service Contracts" in Appendix VII to this prospectus; and

(j) the following PRC laws and regulations, together with unofficial English translations thereof:

(i) the Constitution of the PRC;

(ii) the Law of Organization of the People's Courts of the PRC;

(iii) the Civil Procedure Law of the PRC (《中華人民共和國民事訴訟法》);

(iv) PRC Company Law;

(v) Special Regulations;

(vi) Mandatory Provisions;

(vii) Provisional Regulations Concerning the Issuance and Trading of Shares (《股票發行與交易管理暫行條例》);

(viii) Regulations of the State Council Concerning Domestic Listed Foreign Shares of Joint Stock Limited Companies (《國務院關於股份有限公司境內上市外資股的規定》);

(ix) PRC Securities Law;

(x) Arbitration Law of the PRC (《中華人民共和國仲裁法》);

(xi) the PRC acceded to the Convention on the Recognition and Enforcement of Foreign Arbitral Awards adopted on June 10, 1958 pursuant to a resolution of the Standing Committee of the NPC passed on December 2, 1986;

(xii) PRC Commercial Banking Law;

(xiii) PRC PBoC Law; and

(xiv) PRC Banking Supervision and Regulatory Law.

DRC Bank