
INDUSTRY OVERVIEW

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.

INDUSTRY OVERVIEW

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

	Years ended December 31,					CAGR
	2016	2017	2018	2019	2020	(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,					CAGR
	2016	2017	2018	2019	2020	(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*

INDUSTRY OVERVIEW

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 (RMB in billions)	Nominal GDP	Tertiary industry	Export (RMB in billions)	Land area (square kilometers)	Population ⁽³⁾ (thousand)
		per capita (RMB)	of nominal GDP (%)			
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).

INDUSTRY OVERVIEW

- (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%.

INDUSTRY OVERVIEW

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

	Years ended December 31,					CAGR (2016-2020)
	2016	2017	2018	2019	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,					CAGR (2016-2020)
	2016	2017	2018	2019	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

INDUSTRY OVERVIEW

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,					CAGR
	2016	2017	2018	2019	2020	(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					CAGR
	As of December 31,					(2016-2020)
	2016	2017	2018	2019	2020	
	<i>(RMB in billions, except percentages)</i>					
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.

INDUSTRY OVERVIEW

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)
	<i>(RMB in billions, except percentage)</i>					
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 2021¹, 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.

INDUSTRY OVERVIEW

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	Net core		Cost-to-income	
	Assets	tier-one capital	Net profit	ratio	NPL
		<i>(RMB in billions, except percentages)</i>			
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.

INDUSTRY OVERVIEW

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,					CAGR
	2016	2017	2018	2019	2020	(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
	(RMB in billions)		(2016-2020)
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.

INDUSTRY OVERVIEW

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,					CAGR
	2016	2017	2018	2019	2020	(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
	<i>(RMB in millions, except for the number of total outlets)</i>						
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

INDUSTRY OVERVIEW

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

INDUSTRY OVERVIEW

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 finance¹ (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.

	<u>As of December 31, 2019</u>	<u>As of December 31, 2020</u>
	<i>(RMB in billions)</i>	
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.

INDUSTRY OVERVIEW

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.

INDUSTRY OVERVIEW

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

INDUSTRY OVERVIEW

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.

INDUSTRY OVERVIEW

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.