
SUPERVISION AND REGULATION

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

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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.

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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.

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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 non-compliant incidents or internal management issues in last two years, or remedial measures of such incidents

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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 noncompliant 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 noncompliant 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 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 noncompliant incidents or internal management issues in last year, or remedial measures of such incidents or issues are accepted by the

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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 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

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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

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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

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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.

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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 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-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

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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.

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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.

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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 CBIRC 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

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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,

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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

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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 its 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.

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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.

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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

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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,

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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 cost 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.

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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.

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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 20th 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.

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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.

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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.

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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:

<u>Type of Bank</u>		<u>As of December 31,</u>					
		<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
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

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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

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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 CBIRC 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:

<u>Categories</u>	<u>Capital adequacy</u>	<u>Measures of CBIRC</u>
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.	<ul style="list-style-type: none">• to require the commercial bank to improve the analysis and forecast of the reasons for the decrease of its capital adequacy ratios;• to require the commercial bank to formulate a practicable capital adequacy ratio management plan; and• 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.	<ul style="list-style-type: none">• adopting the regulatory measures for Type I banks;• to hold talks on prudent practice with the board of directors and the senior management of the commercial bank;• 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;• to require the commercial bank to formulate a practicable capital replenishment plan and the

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Categories	Capital adequacy	Measures of CBIRC
		<ul style="list-style-type: none"> plan for meeting the requirements within the prescribed time limit; • to increase the frequency of supervision and inspection of the capital adequacy of the commercial bank; and • 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.	<ul style="list-style-type: none"> • to adopt the regulatory measures for Type I and II banks; • to restrict the commercial bank from distributing dividends and other incomes; • to restrict the commercial bank from granting any form of incentives to directors and senior management; • to restrict the commercial bank from making equity investments or repurchasing capital instruments; • to restrict the commercial bank from incurring major capital expenditure; and • 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.	<ul style="list-style-type: none"> • to adopt the regulatory measures for Type I, II and III banks; • to require the commercial bank to significantly downsize risky assets; • to order the commercial bank to suspend all high-risk asset businesses; • to restrict or prohibit the commercial bank from establishing new institutions or launching new businesses; • to compulsorily require the commercial bank to write down tier-two capital instruments or convert them into ordinary shares; • to order the commercial bank to change its directors or senior management or restrict their rights; • to lawfully take over the commercial bank or procure the institutional reorganization of, or even dissolve, the commercial bank; and • 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.

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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:

$$\text{Leverage ratio} = \frac{\text{Tier - one capital} - \text{tier - one capital deductions}}{\text{Balance of adjusted on - balance sheet and off - balance sheet assets}} \times 100\%$$

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%.

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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)》).

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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

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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 CBIRC 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

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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,			As of
				2018	2019	2020	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

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Indicator categories	Primary indicators	Secondary indicators	Requirements	As of December 31,			As of
				2018	2019	2020	March 31,
			(%)	(%)	(%)	(%)	(%)
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.

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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

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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

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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.

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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

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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

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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

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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

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(《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;

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- 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”.

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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.