You should read the discussion and analysis set forth in this section in conjunction with our historical financial information, together with the accompanying notes, included in Appendix I to this prospectus. Our historical financial information has been prepared in accordance with IFRS. Capital adequacy ratios discussed in this section are calculated in accordance with applicable CBIRC guidelines and based on our consolidated financial statements prepared in accordance with PRC GAAP.

OVERVIEW

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

As of March 31, 2021, we had total assets of RMB564,558.2 million, total loans (including accrued interest and before taking into account the related allowance for expected credit losses) of RMB276,342.5 million and total customer deposits of RMB389,641.3 million (including accrued interest). Our net profit increased 13.5% from RMB4,453.3 million for the year ended December 31, 2018 to RMB5,055.3 million for the year ended December 31, 2020 and our operating income increased 23.2% from RMB9,777.6 million to RMB12,047.0 million for the same periods. For the three months ended March 31, 2020 and 2021, our net profit amounted to RMB1,527.5 million and RMB1,759.2 million, respectively, and our operating income for the same periods amounted to RMB3,173.1 million and RMB3,156.0 million, respectively.

GENERAL FACTORS THAT AFFECT OUR RESULTS OF OPERATIONS

Our results of operations and financial condition have been and will be affected by various factors, including, among other things, certain general factors set out below.

Economic Conditions of the PRC, Guangdong Province and Dongguan

As a rural commercial bank headquartered in Guangdong Province, our financial condition and results of operations are affected by the economic conditions of the PRC and Guangdong Province. Economic policies implemented by the PRC government could have significant impact on the macroeconomy and in turn our business. According to NBS, from 2016 to 2020, the PRC's nominal GDP grew at a CAGR of 8.0%. The PRC's economic growth has resulted in a substantial increase in corporate financing activities and individual wealth, which has in turn contributed to the rapid growth in the corporate and retail banking business of PRC commercial banks. For example, according to PBoC, from 2016 to 2020, total RMB-denominated loans and RMB-denominated deposits in the PRC banking industry grew at a CAGR of 12.8% and 9.0%, respectively. Recently, according to CBIRC, total assets of PRC commercial banks have reached RMB265.8 trillion as of December 31, 2020, growing at a CAGR of 10.0% from 2016 to 2020.

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

From 1989 to 2020, Guangdong Province ranked the first in terms of nominal GDP among all provinces and municipalities in China for 31 consecutive years. From 2016 to 2020, the nominal GDP of Guangdong Province increased at a CAGR of 7.8%. In addition, Guangdong Province had an urbanization rate of 71.4% in 2019, which was 10.8 percentage points higher than the average urbanization rate of 60.6% in China for the same year.

During the Track Record Period, we derived the majority of our income in Dongguan. Dongguan is well-known as a manufacturing hub and export center in China. Benefiting from remarkable geographical advantages and favorable policies, Dongguan has maintained relatively rapid economic growth for many years. In 2020, Dongguan achieved the nominal GDP of RMB965.0 billion, and ranked fourth among all cities in Guangdong. From 2016 to 2020, the nominal GDP of Dongguan recorded a CAGR of 8.6%.

Interest Rate in the PRC

Our net interest income, which is directly affected by interest rates we charged, represented 74.9%, 74.6%, 82.4%, 79.6% and 81.8% of our total operating income for the years ended December 31, 2018, 2019 and 2020 and for the three months ended March 31, 2020 and 2021, respectively. Interest rate has a significant impact on our business, as our operating income is largely derived from our net interest income.

In the PRC, interest rates on RMB-denominated deposits are set by commercial banks with reference to the benchmark interest rates on deposits published, and adjusted by PBoC, and the interest rates on RMB-denominated loans are set by commercial banks with reference to the Loan Prime Rate (LPR) issued by the National Interbank Funding Center. In recent years, China has implemented a series of policies and measures promoting the liberalization of the financial system and, at the same time, strengthening the regulation and supervision of the banking industry. On July 20, 2013, PBoC removed the floor rates for RMB-denominated loans (except for interest rates on residential mortgage loans) and allowed financial institutions to set interest rates based on commercial considerations. Effective August 26, 2015, PBoC removed the cap on the interest rates on RMB-denominated time deposits with terms longer than one year while the cap on the interest rates on RMB-denominated demand deposits and time deposits with terms up to one year remain unchanged. Further, effective October 24, 2015, PBoC removed the cap on interest rates on RMB-denominated deposits and allowed commercial banks in China to set interest rates on RMB-denominated deposits based on commercial considerations. The liberalization of interest rates may intensify competition in the PRC banking industry, thereby affecting our business, results of operations and financial condition. Moreover, the Chinese government may guide interest rates and other key banking indicators from time to time to achieve macroeconomic adjustment targets. For example, the Chinese government has made Loan Prime Rate part of its interest rate reforms. On August 17, 2019, Announcement No. 15 [2019] of the People's Bank of China, which decided to reform and improve the formation mechanism of the LPR in the loan market, stated that each bank should mainly refer to the LPR of the loan market for pricing in its newly issued loans, and adopt the LPR of the loan market as the pricing benchmark in the floating rate loan contract. On August 25, 2019, Announcement No. 16 [2019] of the People's Bank of China, stipulating that from October 8, 2019, the newly issued commercial personal housing loan interest rate shall be formed with LPR of corresponding maturity quoted in the previous month as the pricing benchmark upon which basis points could be added. The interest rate of the first commercial individual housing loan shall not be lower than the LPR for the corresponding term, and the interest rate of the second commercial individual housing loan shall not be lower than the LPR for the corresponding term plus 60 basis points. On December 28, 2019, Announcement No. 16 [2019] of the People's Bank of China was issued, which required that the pricing benchmark of floating rate loans be converted to LPR, and the conversion, in principle, shall be completed before August 31, 2020.

In addition, market liquidity and competition may lead to fluctuations in the net interest spread for our interbank businesses. As a result, our net interest income may be impacted and our business, results of operations and financial condition may also be affected. Please also see "Risk Factors — Risks Relating to the PRC Banking Industry — Further liberalization of interest rates, PBoC's adjustments to the benchmark interest rates, the ongoing reform of the LPR mechanism, the deposit insurance program and other regulatory changes in the PRC banking industry may materially and adversely affect our financial condition and results of operations."

Competitive Landscape in the Banking Industry in Dongguan and Guangdong Province

We compete primarily with commercial banks conducting business in Guangdong Province, particularly in Dongguan. We compete with our competitors mainly on asset quality, product portfolio and prices, risk management, reach of distribution network and customer base, brand recognition and scope, service quality and information technology capabilities. The increase in competition in the PRC banking industry in Dongguan and Guangdong Province may affect the pricing of our loans and deposits and our fee-and commission-based banking business.

Many of the competing banks have expanded their operation in Dongguan. Such banks offer product portfolio similar to ours and may offer discount or more attractive interest rates or prices to customers in order to compete with us. Consequently, we need to strike a balance between retaining our existing customers and maintaining our profit margin. Conversely, if we plan to continue to expand our operations in selected geographic locations in Guangdong Province or other regions, we may face intensive competition from banks that already operate in such regions, which might have better local knowledge, larger financial resource, higher brand recognition and more established customer base than us. For details, please see "Industry Overview — China's Banking Industry Overview — Banking Industry in Guangdong Province", "Industry Overview — China's Banking Industry Overview — Competitive Landscape of Banking Industry in Guangdong Province", "Industry Overview — China's Banking Industry Overview — Banking Industry in Dongguan" and "Industry Overview — China's Banking Industry Overview — Competitive Landscape of Banking Industry in Dongguan".

Regulatory Environment

The PRC banking industry is highly regulated. PRC commercial banks are mainly regulated by CBIRC and PBoC. Additionally, PRC commercial banks are also subject to the supervision and regulation of other regulatory bodies such as SAFE, CSRC, NDRC and MOF. Please see "Supervision and Regulation — Principal Regulators"

Our business, financial condition and results of operations are affected by changes in the PRC banking laws, regulations and policies such as the scope of business PRC commercial banks are permitted to engage in, interests and fees PRC commercial banks are allowed to charge, and restrictions imposed by regulatory authorities on PRC commercial banks in respect of credit extension to borrowers in specific industries or specific loan products.

In recent years, the PRC government has implemented a series of macroeconomic and monetary policies, including (i) adjusting the benchmark interest rates and PBoC statutory deposit reserve ratios for commercial banks, as well as gradually liberalizing the regulation of interest rates; (ii) adopting a Macro Prudential

Assessment (MPA) system to monitor banks' capital adequacy ratios, assets and liabilities, liquidity, and risk; and (iii) promoting the growth of certain industries, or controlling overcapacity in certain other industries, by issuing industry development guidelines. These macroeconomic and monetary policies have had a significant impact on lending activities of PRC rural commercial banks and borrowers' demand for bank financing, which in turn may affect the business, results of operations and financial condition of PRC rural commercial banks, including ours. In addition, the PRC banking regulatory authorities have enhanced regulation on wealth management and interbank businesses of commercial banks, while restrictions on the asset securitization market have been relaxed. New regulations issued by regulatory authorities may have impacts on our business, results of operations and financial condition.

Development of China's Capital Markets and Internet-based Financial Service Platforms

China has launched a number of initiatives to develop a multi-layered capital market and has encouraged enterprises to seek direct financing from the capital markets in recent years, which may affect the core businesses of PRC banks. The deepening of China's debt capital markets may impact our lending business, as certain corporate borrowers may issue debt securities at lower costs to meet their financing needs and thus have lower demands for bank loans. On the other hand, the development of China's capital markets may allow us to expand our fee- and commission-based business, such as our investment banking business and funds distribution, and broaden the scope of securities we may invest in.

Further, China's traditional banking institutions are also facing new challenges from innovations in financial products and technology, for example, online wealth management products, third-party online payment platforms and Internet-based financing service platforms. These innovations in products and technologies may affect the business, results of operations and financial condition of PRC banks.

SELECTED FINANCIAL DATA

The following table sets forth our consolidated income statements for the periods indicated.

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

Note:

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

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

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

Notes:

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

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

(3) Calculated as the difference between the average yield on total interest-earning assets and the average cost of total interest-bearing liabilities.
(4) Calculated by dividing net interest income by the average balance of total interest-earning assets.
(5) Calculated by dividing total operating expenses (excluding tax and surcharges) by total operating income.

Return on average total assets decreased from 1.14% in 2018 to 1.12% in 2019 and further decreased to 1.00% in 2020. For the same years, our return on equity decreased from 16.42% to 14.92% and further decreased to 13.64%, respectively. Such decrease reflects a faster growth of our total assets and total shareholders' equity as compared to the growth our net profit, which was primarily due to (i) our acquisition of Zhanjiang RCB in November 2019 and Chaoyang RCB in December 2020, resulting in a significant increase in our total assets and total shareholders' equity; and (ii) relative small portion of net profit recognized in the corresponding years due to the short time period since acquisition. For the three months ended March 31, 2020 and 2021, our return on average total assets decreased from 1.33% to 1.26% , mainly due to the consolidation of Chaoyang RCB in December 2020, which has a relatively lower profitability as compared with that of our Group. For the same period, our return on equity increased from 15.74% to 16.71%, reflecting a faster growth of our net profit as compared to the growth of our shareholders' equity, which was in turn due to (i) the increased net profit in the first three months of 2021 resulted from our business expansion and effective cost management; and (ii) the decreased shareholders' equity because changes in fair value of financial assets at fair value through other comprehensive income decreased as the market interest rate of our debt securities increased in the first three months of 2021.

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

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

Notes:

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

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

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

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

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

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

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

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2020 AND 2021

Net Interest Income

We generated the majority of our operating income from net interest income for the three months ended March 31, 2020 and 2021, which represented 79.6% and 81.8% of our operating income of the same years, respectively.

The following table sets forth our interest income, interest expense and net interest income for the periods indicated.

	For the three months ended March 31,	
	2020	**2021**
	(in millions of RMB)	
Interest income	4,757.6	5,304.3
Interest expense	(2,230.4)	(2,724.0)
Net interest income	**2,527.2**	**2,580.3**

Our net interest income increased by 2.1% from RMB2,527.2 million for the three months ended March 31, 2020 to RMB2,580.3 million for the three months ended March 31, 2021, primarily due to a 11.5%

increase in our interest income, which was in turn due to a 20.7% increase in the average balance of our interest-earning assets resulting from a 26.2% increase in the average size of our loans and advances to customers, partially offset by the decrease in profit margin resulted from interest-earning assets due to the on-going reform of LPR mechanism and the increase of 22.1% in interest expenses resulted from competition in the banking industry and our business expansion.

The following table sets forth the average balances of our interest-earning assets and interest-bearing liabilities, the related interest income or expense and the related average yields on assets or related average costs of liabilities for the periods indicated.

	For the three months ended March 31,					
	2020			2021		
	Average balance	Interest income/ expense	Average yield/ cost(1)	Average balance	Interest income/ expense	Average yield/ cost(1)
	(in millions of RMB, except percentages)					
Interest-earning assets						
Loans and advances to customers	213,689.9	3,028.5	5.67%	269,623.1	3,510.9	5.21%
Financial investments	162,362.5	1,511.4	3.72%	192,676.4	1,596.0	3.31%
Deposits with central bank	30,018.6	113.3	1.51%	33,232.1	117.9	1.42%
Financial assets held under resale agreements and deposits and placements with banks and other financial institutions	25,531.6	104.4	1.64%	25,458.0	79.5	1.25%
Total interest-earning assets	**431,602.5**	**4,757.6**	**4.41%**	**520,989.6**	**5,304.3**	**4.07%**
Interest-bearing liabilities						
Deposits from customers	296,952.2	1,428.1	1.92%	373,328.0	1,797.8	1.93%
Debt securities issued	64,041.3	506.8	3.17%	52,576.9	411.1	3.13%
Financial assets sold under repurchase agreements and deposits and placements from banks and other financial institutions	44,798.9	264.4	2.36%	47,463.1	288.1	2.43%
Borrowings from central banks	2,948.1	26.6	3.61%	30,725.0	222.6	2.90%
Leasing liability	447.9	4.5	4.02%	442.0	4.4	3.95%
Total interest-bearing liabilities	**409,188.4**	**2,230.4**	**2.18%**	**504,535.0**	**2,724.0**	**2.16%**
Net interest income		2,527.2			2,580.3	
Net interest spread(2)			2.23%			1.91%
Net interest margin(3)			2.34%			1.98%

Notes:

(1) Calculated by dividing interest income/expense by the average balance.

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

(3) Calculated by dividing net interest income by the average balance of total interest-earning assets.

The following table sets forth the allocation of changes in our interest income and interest expense due to changes in volume and changes in rate for the periods indicated. Changes in volume are measured by changes in the average balances and changes in rate are measured by changes in the average rates. Changes caused by both volume and rate have been allocated to changes in volume.

	For the three months ended March 31, 2021 vs. 2020		
	Increase/ (decrease) due to		Net increase/ (decrease)[3]
	Volume[1]	Rate[2]	
	(in millions of RMB)		
Interest-earning assets			
Deposits with central bank[4]	12.2	(7.6)	4.6
Financial assets held under resale agreements and deposits and placements with banks and other financial institutions	(0.3)	(24.6)	(24.9)
Loans and advances to customers	792.8	(310.4)	482.4
Financial investments[5]	282.1	(197.5)	84.6
Changes in interest income	1,086.8	(540.1)	546.7
Interest-bearing liabilities			
Borrowing from central bank	250.5	(54.5)	196.0
Financial assets sold under repurchase agreements and deposits and placements from banks and other financial institutions	15.8	7.9	23.7
Deposits from customers	367.3	2.4	369.7
Debt securities issued[6]	(90.7)	(5.0)	(95.7)
Lease liabilities	—	(0.1)	(0.1)
Changes in interest expense	542.9	(49.3)	493.6
Changes in net interest income	543.9	(490.8)	53.1

Notes:

(1) Represents the average balance for the period minus the average balance for the previous period, multiplied by the average yield/cost of the previous year.

(2) Represents the average yield/cost for the period minus the average yield/cost for the previous year, multiplied by the average balance for the period.

(3) Represents interest income/expense for the period minus interest income/expense for the previous period.

(4) Consisted primarily of statutory deposit reserves and surplus deposit reserves.

(5) Consisted primarily of interest-earning financial investments at amortized costs and financial investments at fair value through other comprehensive income. Since interest income from financial assets at fair value through profit or loss is regarded as trading gains under IFRS 9, financial assets at fair value through profit or loss are excluded for the purpose of the above table.

(6) Consisted primarily of interbank certificates of deposits, tier-two capital debt securities, green financial debt securities, Sannong financial bonds and SME financial bonds.

Interest Income

The following table sets forth the breakdown of our interest income for the periods indicated.

	For the three months ended March 31,					
	2020			2021		
	Amount	% of total	Average yield	Amount	% of total	Average yield
	(in millions of RMB, except percentages)					
Interest income from						
Loans and advances to customers	3,028.5	63.7%	5.67%	3,510.9	66.2%	5.21%
Financial investments	1,511.4	31.7%	3.72%	1,596.0	30.1%	3.31%
Deposits with central bank	113.3	2.4%	1.51%	117.9	2.2%	1.42%
Financial assets held under resale agreements and deposits and placements with banks and other financial institutions	104.4	2.2%	1.64%	79.5	1.5%	1.25%
Total interest income	**4,757.6**	**100.0%**	**4.41%**	**5,304.3**	**100.0%**	**4.07%**

Our interest income increased by 11.5% from RMB4,757.6 million for the three months ended March 31, 2020 to RMB5,304.3 million for the three months ended March 31, 2021, primarily due to a 20.7% increase in the average balance of our interest-earning assets from RMB431,602.5 million for the three months ended March 31, 2020 to RMB520,989.6 million for the three months ended March 31, 2021, primarily due to the consolidation of Chaoyang RCB. It was partially offset by the decrease of average yield from 4.41% to 4.07% for the same period, respectively, mainly because of the implementation of LPR.

Interest Income from Loans and Advances to Customers

Interest income from loans and advances to customers accounted for 63.7% and 66.2% of our interest income for the three months ended March 31, 2020 and 2021, respectively.

Our loans and advances to customers consisted of corporate loans and advances, personal loans and advances and discounted bills. The following table sets forth the daily average balance, interest income and average yield for each component of our loans and advances to customers for the years indicated.

	For the three months ended March 31,					
	2020			2021		
	Average balance	Interest income	Average yield	Average balance	Interest income	Average yield
	(in millions of RMB, except percentages)					
Corporate loans and advances	123,246.7	1,919.7	6.23%	161,789.0	2,207.7	5.46%
Personal loans and advances	72,185.7	982.1	5.44%	82,823.5	1,142.2	5.52%
Discounted bills	18,257.5	126.7	2.78%	25,010.6	161.0	2.58%
Total	**213,689.9**	**3,028.5**	**5.67%**	**269,623.1**	**3,510.9**	**5.21%**

Our interest income from loans and advances to customers increased by 15.9% from RMB3,028.5 million for the three months ended March 31, 2020 to RMB3,510.9 million for the three months ended March 31, 2021, primarily due to the increase in the aggregate loan amount we granted to our customers, evidenced by the increase in the average balance of our total loans and advances to customers from RMB213,689.9 million for the three months ended March 31, 2020 to RMB269,623.1 million for the three months ended March 31, 2021. The average yield on our loans and advances to customers decreased from 5.67% to 5.21% for the three months ended March 31, 2020 and 2021, primarily due to the implementation of LPR and the decrease in the interest rate as affected by the COVID-19.

Corporate Loans and Advances. Interest income from corporate loans and advances was the largest component of our interest income from loans and advances to customers, representing 63.4% and 62.9% of our total interest income from loans and advances to customers for the three months ended March 31, 2020 and 2021, respectively.

Our interest income from corporate loans and advances increased by 15.0% from RMB1,919.7 million for the three months ended March 31, 2020 to RMB2,207.7 million for the three months ended March 31, 2021. The average balance of our corporate loans and advances increased by 31.3% from RMB123,246.7 million for the three months ended March 31, 2020 to RMB161,789.0 million for the three months ended March 31, 2021. The average yield on our corporate loans and advances decreased from 6.23% for the three months ended March 31, 2020 to 5.46% for the three months ended March 31, 2021, primarily due to the decrease in the prevailing interest rates in response to the COVID-19 economic recovery policy.

Personal Loans and Advances. Interest income from personal loans and advances accounted for 32.4% and 32.5% of our total interest income from loans and advances to customers for the three months ended March 31, 2020 and 2021, respectively.

Interest income from personal loans and advances increased by 16.3% from RMB982.1 million for the three months ended March 31, 2020 to RMB1,142.2 million for the three months ended March 31, 2021, mainly due to the increase in both average balance and average yield. The average balance of our personal loans and advances increased by 14.7% from RMB72,185.7 million for the three months ended March 31, 2020 to RMB82,823.5 million for the three months ended March 31, 2021, primarily due to our effort to expand our personal loan business. The average yield on our personal loans and advances increased from 5.44% for the three months ended March 31, 2020 to 5.52% for the three months ended March 31, 2021, primarily due to increase in amount and proportion of online loans with higher yield compared with loans granted offline.

Discounted bill. Interest income from discounted bill accounted for 4.2% and 4.6% of our total interest income from loans and advances to customers for the three months ended March 31, 2020 and 2021, respectively.

Interest income from discounted bill increased by 27.1% from RMB126.7 million for the three months ended March 31, 2020 to RMB161.0 million for the three months ended March 31, 2021, primarily due to an expansion of our bill discounting business.

Interest Income from Financial Investments

Interest income from financial investments represented 31.7% and 30.1% of our total interest income for the three months ended March 31, 2020 and 2021, respectively.

Our interest income from financial investments increased by 5.6% from RMB1,511.4 million for the three months ended March 31, 2020 to RMB1,596.0 million for the three months ended March 31, 2021, which was primarily due to the increase of our financial investment, partially offset by the decrease in investment yield rate.

The following table sets forth a breakdown of the average balances and interest income of debt securities investment, rights to earnings on credit assets, wealth management direct financing instruments as well as their respective average yields for the years indicated:

	For the three months ended March 31,					
	2020			2021		
	Average balance	Interest income	Average yield	Average balance	Interest income	Average yield
	(in millions of RMB, except percentages)					
Interest income from financial investments						
Debt securities investment	158,070.5	1,452.7	3.68%	191,316.4	1,578.5	3.30%
Rights to earnings on credit assets	3,515.7	46.8	5.33%	1,138.0	13.9	4.90%
Wealth management instruments for direct financing	776.3	11.9	6.12%	222.0	3.6	6.44%
Total	**162,362.5**	**1,511.4**	**3.72%**	**192,676.4**	**1,596.0**	**3.31%**

The substantial majority of our interest income from financial investments for the three months ended March 31, 2020 and 2021 was generated from investment in debt securities, which represented 96.1% and 98.9% of our total interest income from financial investment, respectively. The average yields of our investment in debt securities decreased from 3.68% for the three months ended March 31, 2020 to 3.30% for the three months ended March 31, 2021, mainly due to the maturity of debt securities with relatively higher yields.

The interest income of rights to earnings on credit assets for the three months ended March 31, 2020 and 2021 represented 3.1% and 0.9%, respectively, of our interest income from financial investments. The average yields of our rights to earnings on credit assets decreased from 5.33% for the three months ended March 31, 2020 to 4.90% for the three months ended March 31, 2021, mainly due to the increase in rights on earnings on credit assets with relatively lower yields in December 2020.

The interest income of wealth management instruments for direct financing for the three months ended March 31, 2020 and 2021 represented 0.8% and 0.2% of our interest income from financial investment, respectively. The average yields of our wealth management direct financing instruments increased from 6.12% for the three months ended March 31, 2020 to 6.44% for the three months ended March 31, 2021, mainly due to the relatively higher yields for our outstanding wealth management instruments for direct financing.

For a breakdown of the balances of our financial investments by business model and cashflow characteristics as of March 31, 2020 and 2021 and their corresponding components, please see “Assets and Liabilities — Assets — Financial Assets — Distribution by Business Model and Cashflow Characteristics.

Interest Income from Deposits with Central Bank

Interest income from deposits with central bank represented 2.4% and 2.2% of our interest income for the three months ended March 31, 2020 and 2021, respectively.

Our interest-earning assets balances of our deposits with central bank consist primarily of statutory deposit reserves and surplus deposit reserves with PBoC. Statutory deposit reserves represent the minimum level of cash deposits that we are required to maintain at PBoC, calculated as a percentage of the balance of our general deposits from customers. Surplus deposit reserves are deposits with PBoC in excess of statutory deposit reserves, which we maintain with PBoC for clearing purposes.

Our interest income from deposits with central bank slightly increased by 4.1% from RMB113.3 million for the three months ended March 31, 2020 to RMB117.9 million for the three months ended March 31, 2021, primarily due to the decrease in average yields. The average yields of our deposits with central bank decreased from 1.51% for the three months ended March 31, 2020 to 1.42% for the three months ended March 31, 2021, primarily due to the increase in surplus deposit reserves with low interest rate.

Interest Income from Financial Assets Held under Resale Agreements and Deposits and Placements with Banks and Other Financial Institutions

Interest income from financial assets held under resale agreements and deposits and placements with banks and other financial institutions represented 2.2% and 1.5% of our interest income for the three months ended March 31, 2020 and 2021, respectively.

Our interest income from financial assets held under resale agreements and deposits and placements with banks and other financial institutions decreased by 23.9% from RMB104.4 million for the three months ended March 31, 2020 to RMB79.5 million for the three months ended March 31, 2021, primarily due to the decrease in average yields. The average balance of financial assets held under resale agreements and deposits and placements with banks and other financial institutions remained relatively stable for the same periods.

Interest Expense

The following table sets forth the breakdown of our interest expense for the periods indicated.

	For the three months ended March 31,			
	2020		2021	
	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)			
Interest expense on				
Deposits from customers	1,428.1	64.0%	1,797.8	65.9%
Debt Securities Issued	506.8	22.7%	411.1	15.1%
Financial assets sold under repurchase agreements and deposits and placements from banks and other financial institutions	264.4	11.9%	288.1	10.6%
Borrowings from central banks	26.6	1.2%	222.6	8.2%
Lease liabilities	4.5	0.2%	4.4	0.2%
Total interest expense	**2,230.4**	**100.0%**	**2,724.0**	**100.0%**

Our interest expense increased by 22.1% from RMB2,230.4 million for the three months ended March 31, 2020 to RMB2,724.0 million for the three months ended March 31, 2021, primarily due to the increase in interest expense for borrowings from central bank in line with our increase in PBoC's medium-term lending facility.

Interest Expense on Deposits from Customers

Deposits from customers are our primary source of funding. Interest expense on deposits from customers represented 64.0% and 65.9% of our total interest expense for the three months ended March 31, 2020 and 2021, respectively.

The following table sets forth the daily average balance, interest expense and average cost of our customer deposits by product type for the periods indicated.

	For the three months ended March 31,					
	2020			2021		
	Average balance	Interest expense	Average cost	Average balance	Interest expense	Average cost
	(in millions of RMB, except percentages)					
Corporate deposits						
Demand	59,429.2	117.3	0.79%	88,013.6	165.5	0.75%
Time	55,904.3	533.6	3.82%	64,796.5	615.1	3.80%
Subtotal	115,333.5	650.9	2.26%	152,810.1	780.6	2.04%
Personal deposits						
Demand	93,949.6	127.3	0.54%	103,204.1	146.5	0.57%
Time	87,669.1	649.9	2.97%	117,313.8	870.7	2.97%
Subtotal	181,618.7	777.2	1.71%	220,517.9	1,017.2	1.85%
Total deposits from customers	**296,952.2**	**1,428.1**	**1.92%**	**373,328.0**	**1,797.8**	**1.93%**

Our interest expense on deposits from customers increased by 25.9% from RMB1,428.1 million for the three months ended March 31, 2020 to RMB1,797.8 million for the three months ended March 31, 2021, primarily due to the increase in our deposits from customers.

Interest Expense on Financial Assets Sold under Repurchase Agreements and Deposits and Placements from Banks and Other Financial Institutions

Interest expense on financial assets sold under repurchase agreements and deposits and placements from banks and other financial institutions represented 11.9% and 10.6% of our interest expense for the three months ended March 31, 2020 and 2021, respectively.

Our interest expense on financial assets sold under repurchase agreements and deposits and placements from banks and other financial institutions increased from RMB264.4 million for the three months ended March 31, 2020 to RMB288.1 million for the three months ended March 31, 2021, primarily due to the increase in average balance of our financial assets sold under repurchase agreements and deposits and placements from banks and other financial institutions.

Interest Expense on Debt Securities Issued

Interest expense on debt securities issued represented 22.7% and 15.1% of our interest expense for the three months ended March 31, 2020 and 2021, respectively.

Our interest expense on debt securities issued decreased by 18.9% from RMB506.8 million for the three months ended March 31, 2020 to RMB411.1 million for the three months ended March 31, 2021, primarily due to significant decrease in average balance of certificates of interbank deposits, which in turn was because our Bank acquired stable liabilities from PBoC through active participation in medium-term lending facility bidding.

Interest Expenses on Borrowings from Central Bank

Interest expense on borrowings from central bank represented 1.2% and 8.2% of our interest expense for the three months ended March 31, 2020 and 2021, respectively.

Our interest expense on borrowing from the central bank increased by 736.8% from RMB26.6 million for the three months ended March 31, 2020 to RMB222.6 million for the three months ended March 31, 2021, primarily because our Bank actively participated in PBoC's medium-term lending facility bidding and acquired stable liabilities.

Net Interest Spread and Net Interest Margin

Net interest spread is the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities. Net interest margin is the ratio of net interest income to the average balance of total interest-earning assets.

Our net interest spread decreased from 2.23% for the three months ended March 31, 2020 to 1.91% for the three months ended March 31, 2021. Our net interest margin decreased from 2.34% for the three months ended March 31, 2020 to 1.98% for the three months ended March 31, 2021. The decrease in net interest margin was due to (i) the implementation of LPR, and (ii) interest rate liberalization that intensified competition in the PRC banking industry and therefore narrowed the net interest margin.

Net Fee and Commission Income

Net fee and commission income remained the same at 6.1% of our total operating income for the three months ended March 31, 2020 and 2021, respectively. The following table sets forth the principal components of our net fee and commission income for the periods indicated.

	For the three months ended March 31,	
	2020	2021
	(in millions of RMB)	
Fee and commission income		
Bank card services	105.0	75.9
Custodian and other fiduciary services	31.9	57.7
Wealth management agency services	55.0	65.9
Settlement and clearing services	5.3	7.8
Others	9.9	18.8
Subtotal	207.1	226.1
Fee and commission expenses	**(14.8)**	**(32.7)**
Net fee and commission income	**192.3**	**193.4**

Our net fee and commission income slightly increased by 0.6% from RMB192.3 million for the three months ended March 31, 2020 to RMB193.4 million for the three months ended March 31, 2021.

Fee and Commission Income

Our fee and commission income increased by 9.2% from RMB207.1 million for the three months ended March 31, 2020 to RMB226.1 million for the three months ended March 31, 2021. The increase was mainly due to maturity and sale of our wealth management products and business recovery benefited from the effective COVID-19 control policy.

Bank Card Service Fees

Bank card service fees consisted primarily of transaction fees on the payment made with our bank cards. Bank card service fees decreased by 27.7% from RMB105.0 million for the three months ended March 31, 2020 to RMB75.9 million for the three months ended March 31, 2021, primarily due to the downward adjustment of bank card service fees in response to the market competition and to support rural vitalization.

Custodian and Other Fiduciary Service Fees

Custodian and other fiduciary service fees consisted primarily of fees earned on agency services for sales of insurances and other products issued by third parties. Custodian and other fiduciary service fees increased by 80.9% from RMB31.9 million for the three months ended March 31, 2020 to RMB57.7 million for the three months ended March 31, 2021, mainly due to the resume of relevant business from COVID-19 impact as the marketing and promotion activities were restricted in 2020 under the strict COVID-19 control policies.

Wealth Management Agency Service Fee

Wealth management agency service fees consist primarily of fees and commissions received for wealth management agency services provided to our customers. Our wealth management agency service fees increased by 19.8% from RMB55.0 million for the three months ended March 31, 2020 to RMB65.9 million for the three months ended March 31, 2021, primarily due to maturity and sale of wealth management products.

Settlement and Clearing Services Fee

Settlement and clearing services fees consisted primarily of fees earned on settlement and clearing services in respect of bank acceptance bills, promissory notes and cheques, as well as fees earned on money transfers and clearing services. Settlement can be effectuated through our branch offices, automatic terminals or via internet and mobile banking. Our settlement fees and clearing service fee increased by 47.2% from RMB5.3 million for the three months ended March 31, 2020 to RMB7.8 million for the three months ended March 31, 2021, mainly due to the expansion of our online banking business.

Fee and Commission Expense

Fee and commission expenses consist primarily of fees paid to third parties in connection with our fee and commission-based services that can be directly allocated to the provision of such services. Our fee and commission expenses increased by 120.9% from RMB14.8 million for the three months ended March 31, 2020 to RMB32.7 million for the three months ended March 31, 2021, mainly due to the expansion of our online banking business.

Other Components of Our Operating Income

The following table sets forth other components of our operating income for the periods indicated.

	For the three months ended March 31,			
	2020	% of total	2021	% of total
	(in millions of RMB)			
Net trading gains	361.3	79.7%	308.2	80.7%
Net gains on financial investments	57.6	12.7%	57.5	15.0%
Other operating income[(1)]	34.7	7.6%	16.6	4.3%
Total	**453.6**	**100.0%**	**382.3**	**100.0%**

Note:
(1) Consisted primarily of rental income and government grants.

Net Trading Gains

Since January 1, 2018, our net trading gains consisted primarily of interest income and disposal gains of financial assets at fair value through profit or loss, exchange gains, and gains and losses from precious metals business. Our net trading gains decreased by 14.7% from RMB361.3 million for the three months ended March 31, 2020 to RMB308.2 million for the three months ended March 31, 2021, primarily due to the increase in the profit and losses on the changes in fair value of financial assets designated at fair value through investment income as a result of the significant decrease in market interests rates as affected by the pandemic in the first quarter of 2020, and the decrease in the profit and losses on the changes in fair value of financial assets designated at fair value through investment income as a result of the absence of significant fluctuation of market interest rates in the first quarter of 2021. The following table sets forth other components of our net trading gains for the years indicated.

	For the three months ended March 31,	
	2020	2021
	(in millions of RMB)	
Net gains on financial assets held for trading	333.9	265.2
Exchange gains	26.5	42.6
Gains/(losses) on precious metal	0.9	0.4
Total	**361.3**	**308.2**

Net Gains on Financial Investments

Net gains on financial investments consist primarily of interest income, dividend income from financial asset investments and gains from sale of debt instruments. Our net gains on financial investments remained relatively stable and slightly decreased from RMB57.6 million for the three months ended March 31, 2020 to RMB57.5 million for the three months ended March 31, 2021. The following table sets forth the components of net gains on financial investment.

	For the three months ended March 31,	
	2020	2021
	(in millions of RMB)	
Net (losses)/gains on debt instrument investments at fair value through other comprehensive income	29.5	55.4
Net gains on other financial assets at fair value through profit or loss	28.1	0.3
Net losses on derecognition of financial assets at amortized cost	—	—
Dividend income from equity instruments	—	1.8
Total	**57.6**	**57.5**

Other Operating Incomes

Other operating incomes mainly include gains from sale of fixed assets and rental income. For the three months ended March 31, 2020 and 2021, other operating incomes were RMB34.7 million and RMB16.6 million, respectively. The following table sets forth the principal components of our other operating incomes for the years indicated.

	For the three months ended March 31,	
	2020	**2021**
	(in millions of RMB)	
Gains from sale of fixed assets[(1)]	25.9	5.2
Rental income	4.0	6.9
Government grants	1.2	2.7
Others	3.6	1.8
Total	**34.7**	**16.6**

Note:

(1) Consisted primarily of our disposal of certain properties with relatively long useful lives, low net values and low values in use.

Operating Expenses

The following table sets forth the principal components of our total operating expenses for the periods indicated.

	For the three months ended March 31,			
	2020	**% of total**	**2021**	**% of total**
	(in millions of RMB)			
Staff expense	720.4	71.4%	600.2	66.8%
Office and administrative expenses	147.2	14.6%	140.0	15.6%
Depreciation and amortization	108.9	10.8%	124.6	13.9%
Tax and surcharges	29.1	2.9%	28.1	3.1%
Auditors' remuneration	0.2	0.0%	0.8	0.0%
Other	2.5	0.3%	5.3	0.6%
Total operating expenses	**1,008.3**	**100.0%**	**899.0**	**100.0%**

Our operating expenses decreased by 10.8% from RMB1,008.3 million for the three months ended March 31, 2020 to RMB899.0 million for the three months ended March 31, 2021. Our cost-to-income ratio (excluding tax expenses and surcharges) was 30.86% and 27.60% for the three months ended March 31, 2020 and 2021, respectively. Such decreases were primarily due to the decrease in staff salaries.

Staff Expenses

Staff expenses were the largest component of our operating expenses, representing 71.4% and 66.8% of our total operating expenses for the three months ended March 31, 2020 and 2021, respectively.

The following table sets forth the components of our staff costs for the periods indicated.

	For the three months ended March 31,			
	2020	% of total	2021	% of total
	(in millions of RMB)			
Salaries, bonuses, allowances and subsidies	560.7	77.8%	443.6	73.9%
Social security and benefits	104.7	14.5%	123.7	20.6%
Enterprise annuity scheme	35.2	4.9%	24.0	4.0%
Labor union fees and employee education expenses	19.8	2.8%	8.9	1.5%
Total staff costs	**720.4**	**100.0%**	**600.2**	**100.0%**

Staff expenses decreased by 16.7% from RMB720.4 million for the three months ended March 31, 2020 to RMB600.2 million for the three months ended March 31, 2021, primarily due to the decrease in salaries, bonuses, allowances and subsidies.

Salaries, bonuses, allowances and subsidies are the largest component of our staff expenses, representing 77.8% and 73.9% of our total staff costs for the three months ended March 31, 2020 and 2021, respectively. Salaries, bonuses, allowances and subsidies decreased by 20.9% from RMB560.7 million for the three months ended March 31, 2020 to RMB443.6 million for the three months ended March 31, 2021, primarily due to our continuous efforts on optimization of our salary system. In 2021, our Bank adopted a more refined performance appraisal system to improve operating efficiency and the performance bonus is more closely linked with the employees' performance to complete the business targets.

Office and Administrative Expenses

Office and administrative expenses represented 14.6% and 15.6% of our total operating expenses for the three months ended March 31, 2020 and 2021, respectively. Office and administrative expenses consisted primarily of business marketing expenses, electronic equipment operating costs, security expenses and insurance premiums. Office and administrative expenses remained relatively stable and slightly decreased by 4.9% from RMB147.2 million for the three months ended March 31, 2020 to RMB140.0 million for the three months ended March 31, 2021.

Depreciation and Amortization

Depreciation and amortization was mainly associated with depreciation of our property and equipment, and amortization of software, right-to-use assets, investment properties and long-term deferred expenses. Depreciation and amortization represented 10.8% and 13.9% of our total operating expenses for the three months ended March 31, 2020 and 2021, respectively. Depreciation and amortization increased by 14.4% from RMB108.9 million for the three months ended March 31, 2020 to RMB124.6 million for the three months ended March 31, 2021, primarily due to the consolidation of Chaoyang RCB in December 2020.

Tax and Surcharges

Tax and surcharges remained relatively stable and slightly decreased by 3.4% from RMB29.1 million for the three months ended March 31, 2020 to RMB28.1 million for the three months ended March 31, 2021.

Expected Credit Losses and Asset Losses

Expected credit loss is weighted average credit losses weighted by the probability of default, primarily including expected credit loss in our loans and advances to customers, financial investments, guarantees, financial assets held under resale agreements and deposits and placement with banks and other financial institutions. Our expected credit losses and asset losses decreased by 37.6% from RMB437.2 million for the three months ended March 31, 2020 to RMB272.6 million for the three months ended March 31, 2021, primarily due to the decrease of RMB169.9 million in allowance for expected credit losses, which was in turn resulted from the decrease in the amount and proportion of our non-normal loans in the first three months of 2021.

In addition, the expected credit loss of our financial investment decreased by 17.3% from RMB111.2 million for the three months ended March 31, 2020 to RMB92.0 million for the three months ended March 31, 2021, mainly due to the decrease in our non-credit asset investment with higher credit risk and our investment structure is gradually adjusted and optimized. In addition, we proactively identified potential risky financial investment assets in the previous two years so that the provision recognized was sufficient to cover the credit risk of such assets. The expected credit loss of customer loans and advances decreased by 59.3% from RMB286.5 million for the three months ended March 31, 2020 to RMB116.6 million for the three months ended March 31, 2021, mainly due to the decrease in allowance for expected credit losses, which was in turn resulted from the decrease in both amount and proportion of our NPLs.

The following table sets forth the components of our expected credit losses and asset losses for the years indicated.

	For the three months ended March 31,	
	2020	**2021**
	(in millions of RMB)	
Financial investments	111.2	92.0
Loans and advances to customers	286.5	116.6
Credit commitments	(1.1)	38.6
Financial assets held under resale agreements and deposits and placements with banks and other financial institutions	4.9	15.3
Asset losses	—	—
Others[1]	35.7	10.1
Total	**437.2**	**272.6**

Note:
(1) Mainly consisted of provisions for other assets.

Income Tax Expenses

The following table sets forth the reconciliation between the income tax expenses calculated at the statutory income tax rate applicable to our profit before tax and our actual income tax expenses for the periods indicated.

	For the three months ended March 31,	
	2020	2021
	(in millions of RMB)	
Profit before tax	**1,733.9**	**2,000.1**
Income tax calculated at the tax rate of 25%	433.5	500.0
Impact of income not subject to tax(1)	(236.8)	(265.3)
Profit or loss attributable to associates	(1.6)	(3.9)
Non-deductible tax effect(2)	11.3	10.2
Derecognition of previously recognized deferred tax assets and others	—	—
Effect of preferential tax rate applicable to a subsidiary(3)	—	(0.1)
Income tax expense	**206.4**	**240.9**

Notes:

(1) Mainly consisted of interest income from debt securities issued by PRC governments, which is non-taxable in accordance with PRC tax regulations.

(2) Mainly consisted of expenditures in excess of limitation of tax deduction in accordance with PRC tax regulations.

(3) Referred to our controlled subsidiary, Hezhou Babu Dongying County Bank, which was subject to a reduced income tax rate at 15% as it qualified in industries encouraged to develop in the western region of the PRC.

Our income tax expenses increased by 16.7% from RMB206.4 million for the three months ended March 31, 2020 to RMB240.9 million for the three months ended March 31, 2021, which is mainly attributable to the increase in profit before tax. Our effective income tax rate was 11.9% and 12.0% for the three months ended March 31, 2020 and 2021, respectively.

The following table sets forth, for the periods indicated, the components of our income tax expenses.

	For the three months ended March 31,	
	2020	2021
	(in millions of RMB)	
Current income tax	171.0	247.4
Deferred income tax	35.4	(6.5)
Total income tax expenses	**206.4**	**240.9**

Net Profit

Primarily as a result of all the foregoing factors, our net profit increased by 15.2% from RMB1,527.5 million for the three months ended March 31, 2020 to RMB1,759.2 million for the three months ended March 31, 2021.

Other Comprehensive Income/(Losses)

	For the three months ended March 31,	
	2020	**2021**
	(in millions of RMB)	
Items which may be reclassified to profit or loss		
Changes in fair value of financial assets at fair value through other comprehensive income	690.6	(220.6)
Credit impairment provision for financial assets at fair value through other comprehensive income	105.9	103.9
Impact on income tax on changes in fair value and credit impairment provision of financial assets at fair value through other comprehensive income	(199.1)	29.2
Items will not be reclassified to profit or loss		
Changes in fair value of equity instruments designated at fair value through other comprehensive income	(7.4)	3.0
Impact on income tax on changes in fair value of equity instruments designated at fair value through other comprehensive income	1.8	(0.8)
Other Comprehensive Income/(Losses)	591.8	**(85.3)**

Our financial assets measured at fair value through other comprehensive income primarily consist of re-discounted bills, debt securities, rights to earnings on credit assets, wealth management products for direct financing and unlisted equity investments. We recorded a gain from changes in fair value of financial assets at fair value through other comprehensive income at the amount of RMB690.6 million in the three months ended March 31, 2020 and a loss from changes in fair value of financial assets at fair value through other comprehensive income at the amount of RMB220.6 million in the three months ended March 31, 2021. Such fluctuation was mainly attributable to the increase in the prevailing interest rate of debt securities in the three months ended March 31, 2021 as compared with that in the three months ended March 31, 2020, which resulted in the decrease in the fair value of our financial assets. We incurred impairment losses of RMB105.9 million and RMB103.9 million on such financial assets in the three months ended March 31, 2020 and 2021, respectively, in accordance with the expected credit loss model under IFRS 9, which remained relatively stable for the three months ended March 31, 2020 and 2021.

RESULTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2020

Net Interest Income

We generated the majority of our operating income from net interest income for the years ended December 31, 2019 and 2020, which represented 74.6% and 82.4% of our operating income of the same years, respectively.

The following table sets forth our interest income, interest expense and net interest income for the periods indicated.

	For the years ended December 31,	
	2019	2020
	(in millions of RMB)	
Interest income	17,353.1	19,517.6
Interest expense	(8,551.9)	(9,585.2)
Net interest income	**8,801.2**	**9,932.4**

Our net interest income increased by 12.9% from RMB8,801.2 million for the year ended December 31, 2019 to RMB9,932.4 million for the year ended December 31, 2020, primarily due to a 12.5% increase in our interest income.

The following table sets forth the average balances of our interest-earning assets and interest-bearing liabilities, the related interest income or expense and the related average yields on assets or related average costs of liabilities for the periods indicated.

	For the years ended December 31,					
	2019			2020		
	Average balance	Interest income/ expense	Average yield/ cost(1)	Average balance	Interest income/ expense	Average yield/ cost(1)
	(in millions of RMB, except percentages)					
Interest-earning assets						
Loans and advances to customers	185,401.4	10,149.5	5.47%	229,066.7	12,728.3	5.56%
Financial investments	159,621.6	6,256.6	3.92%	178,416.0	5,980.8	3.35%
Deposits with central bank	37,885.6	462.6	1.22%	28,746.5	431.1	1.50%
Financial assets held under resale agreements and deposits and placements with banks and other financial institutions	20,270.2	484.4	2.39%	24,192.2	377.4	1.56%
Total interest-earning assets	**403,178.8**	**17,353.1**	**4.30%**	**460,421.4**	**19,517.6**	**4.24%**
Interest-bearing liabilities						
Deposits from customers	280,198.0	5,125.4	1.83%	330,883.3	6,465.2	1.95%
Debt securities issued	54,981.8	1,891.2	3.44%	60,704.0	1,778.2	2.93%
Financial assets sold under repurchase agreements and deposits and placements from banks and other financial institutions	50,783.0	1,470.2	2.90%	44,960.6	1,002.2	2.23%
Borrowings from central banks	1,471.7	40.5	2.75%	10,637.1	322.5	3.03%
Leasing liability	478.2	24.6	5.12%	453.6	17.1	3.79%
Total interest-bearing liabilities	**387,912.7**	**8,551.9**	**2.20%**	**447,638.6**	**9,585.2**	**2.14%**
Net interest income		8,801.2			9,932.4	
Net interest spread(2)			2.10%			2.10%
Net interest margin(3)			2.18%			2.16%

Notes:

(1) Calculated by dividing interest income/expense by the average balance.

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

(3) Calculated by dividing net interest income by the average balance of total interest-earning assets.

The following table sets forth the allocation of changes in our interest income and interest expense due to changes in volume and changes in rate for the periods indicated. Changes in volume are measured by changes in the average balances and changes in rate are measured by changes in the average rates. Changes caused by both volume and rate have been allocated to changes in volume.

	For the years ended December 31,		
	2020 vs. 2019		
	Increase/ (decrease) due to		Net increase/ (decrease)[3]
	Volume[1]	Rate[2]	
	(in millions of RMB)		
Interest-earning assets			
Deposits with central bank[4]	(111.6)	80.1	(31.5)
Financial assets held under resale agreements and deposits and placements with banks and other financial institutions	93.7	(200.7)	(107.0)
Loans and advances to customers	2,390.4	188.4	2,578.8
Financial investments[5]	736.7	(1,012.5)	(275.8)
Changes in interest income	3,109.2	(944.7)	2,164.5
Interest-bearing liabilities			
Borrowing from central bank	252.4	29.6	282.0
Financial assets sold under repurchase agreements and deposits and placements from banks and other financial institutions	(168.6)	(299.4)	(468.0)
Deposits from customers	927.1	412.7	1,339.8
Debt securities issued[6]	196.8	(309.8)	(113.0)
Lease liabilities	(1.3)	(6.2)	(7.5)
Changes in interest expense	1,206.4	(173.1)	1,033.3
Changes in net interest income	1,902.8	(771.6)	1,131.2

Notes:

(1) Represents the average balance for the period minus the average balance for the previous period, multiplied by the average yield/cost of the previous year.

(2) Represents the average yield/cost for the period minus the average yield/cost for the previous year, multiplied by the average balance for the period.

(3) Represents interest income/expense for the period minus interest income/expense for the previous period.

(4) Consisted primarily of statutory deposit reserves and surplus deposit reserves.

(5) Consisted primarily of interest-earning financial investments at amortized costs and financial investments at fair value through other comprehensive income. Since interest income from financial assets at fair value through profit or loss is regarded as trading gains under IFRS 9, financial assets at fair value through profit or loss are excluded for the purpose of the above table.

(6) Consisted primarily of interbank certificates of deposits, tier-two capital debt securities, green financial debt securities, Sannong financial bonds and SME financial bonds.

Interest Income

The following table sets forth the breakdown of our interest income for the periods indicated.

	For the years ended December 31,					
	2019			2020		
	Amount	% of total	Average yield	Amount	% of total	Average yield
	(in millions of RMB, except percentages)					
Interest income from						
Loans and advances to customers . . .	10,149.5	58.5%	5.47%	12,728.3	65.3%	5.56%
Financial investments	6,256.6	36.1%	3.92%	5,980.8	30.6%	3.35%
Deposits with central bank	462.6	2.6%	1.22%	431.1	2.2%	1.50%
Financial assets held under resale agreements and deposits and placements with banks and other financial institutions	484.4	2.8%	2.39%	377.4	1.9%	1.56%
Total interest income	**17,353.1**	**100.0%**	**4.30%**	**19,517.6**	**100.0%**	**4.24%**

Our interest income increased by 12.5% from RMB17,353.1 million for the year ended December 31, 2019 to RMB19,517.6 million for the year ended December 31, 2020, primarily due to a 14.2% increase in the average balance of our interest-earning assets from RMB403,178.8 million for the year ended December 31, 2019 to RMB460,421.4 million for the year ended December 31, 2020, partially offset by the slight decrease of average yield from 4.30% to 4.24% for the same year, respectively.

Interest Income from Loans and Advances to Customers

Interest income from loans and advances to customers accounted for 58.5% and 65.3% of our total interest income for the years ended December 31, 2019 and 2020, respectively.

Our loans and advances to customers consisted of corporate loans and advances, personal loans and advances and discounted bills. The following table sets forth the daily average balance, interest income and average yield for each component of our loans and advances to customers for the years indicated.

	For the years ended December 31,					
	2019			2020		
	Average balance	Interest income	Average yield	Average balance	Interest income	Average yield
	(in millions of RMB, except percentages)					
Corporate loans and advances	101,677.5	6,647.3	6.54%	133,068.1	7,460.9	5.61%
Personal loans and advances	65,008.0	2,917.4	4.49%	78,384.5	4,813.9	6.14%
Discounted bills	18,715.9	584.8	3.12%	17,614.1	453.5	2.57%
Total	**185,401.4**	**10,149.5**	**5.47%**	**229,066.7**	**12,728.3**	**5.56%**

Our interest income from loans and advances to customers increased by 25.4% from RMB10,149.5 million for the year ended December 31, 2019 to RMB12,728.3 million for the year ended December 31, 2020, primarily due to the increase in the aggregate loan amount we granted to our customers, evidenced by the increase in the average balance of our total loans and advances to customers from RMB185,401.4 million for the year ended December 31, 2019 to RMB229,066.7 million for the year ended December 31, 2020. The average yield on our loans and advances to customers remained relatively stable at 5.47% and 5.56%, respectively, for the years ended December 31, 2019 and 2020.

Corporate Loans and Advances. Interest income from corporate loans and advances was the largest component of our interest income from loans and advances to customers, representing 65.5% and 58.6% of our total interest income from loans and advances to customers for the years ended December 31, 2019 and 2020, respectively.

Our interest income from corporate loans and advances increased by 12.2% from RMB6,647.3 million for the year ended December 31, 2019 to RMB7,460.9 million for the year ended December 31, 2020. The average balance of our corporate loans and advances increased by 30.9% from RMB101,677.5 million for the year ended December 31, 2019 to RMB133,068.1 million for the year ended December 31, 2020. The average yield on our corporate loans and advances decreased from 6.54% for the year ended December 31, 2019 to 5.61% for the year ended December 31, 2020, primarily due to the decrease in the prevailing interest rates in response to the COVID-19 economic recovery policy.

Personal Loans and Advances. Interest income from personal loans and advances accounted for 28.7% and 37.8% of our total interest income from loans and advances to customers for the years ended December 31, 2019 and 2020, respectively.

Interest income from personal loans and advances increased by 65.0% from RMB2,917.4 million for the year ended December 31, 2019 to RMB4,813.9 million for the year ended December 31, 2020, mainly due to the increase in both average balance and average yield. The average balance of our personal loans and advances increased by 20.6% from RMB65,008.0 million for the year ended December 31, 2019 to RMB78,384.5 million for the year ended December 31, 2020, primarily due to our effort to expand our personal loan business. The average yield on our personal loans and advances increased from 4.49% for the year ended December 31, 2019 to 6.14% for the year ended December 31, 2020, primarily due to increase in amount and proportion of online loans with higher yield compared with loans granted offline.

Discounted bill. Interest income from discounted bill accounted for 5.8% and 3.6% of our total interest income from loans and advances to customers for the years ended December 31, 2019 and 2020, respectively.

Interest income from discounted bill decreased by 22.5% from RMB584.8 million for the year ended December 31, 2019 to RMB453.5 million for the year ended December 31, 2020, primarily due to: (i) the decrease in average yields from 3.12% for the year ended December 31, 2019 to 2.57% for the year ended December 31, 2020, which was in turn primarily due to the decrease in prevailing market interest rates; and (ii) the average balance of discounted bill decreased by 5.9% from RMB18,715.9 million for the year ended December 31, 2019 to RMB17,614.1 million for the year ended December 31, 2020.

Interest Income from Financial Investments

Interest income from financial investments represented 36.1% and 30.6% of our total interest income for the years ended December 31, 2019 and 2020, respectively.

Our interest income from financial investments decreased by 4.4% from RMB6,256.6 million for the year ended December 31, 2019 to RMB5,980.8 million for the year ended December 31, 2020, which was primarily due to the more prudent investment policy we adopted to allocate more funds to standard financial instruments which have relatively lower yields. The decrease in interest income from financial investment was partially offset by the increase in average balance of our financial investments increased by 11.8% from RMB159,621.6 million for the year ended December 31, 2019 to RMB178,416.0 million as at December 31, 2020, primarily due to increase in our investment in financial instrument, which was in turn driven by the growth of deposits in 2020 and the consequent increase in available funds for financial investment.

The following table sets forth a breakdown of the average balances and interest income of debt securities investment, rights to earnings on credit assets, wealth management direct financing instruments as well as their respective average yields for the years indicated:

	For the years ended December 31,					
	2019			2020		
	Average balance	Interest income	Average yield	Average balance	Interest income	Average yield
	(in millions of RMB, except percentages)					
Interest income from financial investments						
Debt securities investment	136,104.1	5,057.2	3.72%	172,309.1	5,623.7	3.26%
Rights to earnings on credit assets	15,495.2	716.4	4.62%	2,944.2	151.5	5.15%
Wealth management instruments for direct financing	8,022.3	483.0	6.02%	3,162.7	205.6	6.50%
Total	**159,621.6**	**6,256.6**	**3.92%**	**178,416.0**	**5,980.8**	**3.35%**

The substantial majority of our interest income from financial investments for the years ended December 31, 2019 and 2020 was generated from investment in debt securities, which represented 80.8% and 94.1% of our total interest income from financial investment, respectively. The average yields of our investment in debt securities decreased from 3.72% in 2019 to 3.26% in 2020, mainly due to the increase in funds allocated to debt securities with relatively lower yields, such as treasury bonds and local municipal bonds, as we adopted more prudent investment policy.

The interest income of rights to earnings on credit assets in 2019 and 2020 represented 11.5% and 2.5%, respectively, of our interest income from financial investments. The average yields of our rights to earnings on credit assets increased from 4.62% for the year ended December 31, 2019 to 5.15% for the year ended December 31, 2020, mainly due to the higher average yield of rights to earnings on the outstanding credit assets.

The interest income of wealth management instruments for direct financing in 2019 and 2020 represented 7.7% and 3.4% of our interest income from financial investment, respectively. The average yields of our wealth management direct financing instruments increased from 6.02% in 2019 to 6.50% in 2020, mainly due to the higher average yield of the outstanding wealth management instruments for direct financing.

For a breakdown of the balances of our financial investments by business model and cashflow characteristics as of December 31, 2019 and 2020 and their corresponding components, please see "Assets and Liabilities — Assets — Financial Assets — Distribution by Business Model and Cashflow Characteristics".

Interest Income from Deposits with Central Bank

Interest income from deposits with central bank represented 2.6% and 2.2% of our interest income for the years ended December 31, 2019 and 2020, respectively.

Our interest-earning assets balances of our deposits with central bank consist primarily of statutory deposit reserves and surplus deposit reserves with PBoC. Statutory deposit reserves represent the minimum level of cash deposits that we are required to maintain at PBoC, calculated as a percentage of the balance of our general deposits from customers. Surplus deposit reserves are deposits with PBoC in excess of statutory deposit reserves, which we maintain with PBoC for clearing purposes.

Our interest income from deposits with central bank decreased by 6.8% from RMB462.6 million for the year ended December 31, 2019 to RMB431.1 million for the year ended December 31, 2020, primarily due to the average balance of our deposits with central bank decreased by 24.1% from RMB37,885.6 million for the year ended December 31, 2019 to RMB28,746.5 million for the year ended December 31, 2020, which was in turn resulted from the lower RMB statutory deposit reserve ratios from 9.5% as of December 31, 2019 to 7.5% as of December 31, 2020. The average yields of our deposits with central bank increased from 1.22% for the year ended December 31, 2019 to 1.50% for the year ended December 31, 2020, primarily due to the decrease in the proportion of surplus deposits reserve which had lower yield.

Interest Income from Financial Assets Held under Resale Agreements and Deposits and Placements with Banks and Other Financial Institutions

Interest income from financial assets held under resale agreements and deposits and placements with banks and other financial institutions represented 2.8% and 1.9% of our interest income for the years ended December 31, 2019 and 2020, respectively.

Our interest income from financial assets held under resale agreements and deposits and placements with banks and other financial institutions decreased by 22.1% from RMB484.4 million for the year ended December 31, 2019 to RMB377.4 million for the year ended December 31, 2020, primarily due to the average yield on these financial assets held under resale agreements and deposits and placements with banks and other financial institutions decreased from 2.39% for the year ended December 31, 2019 to 1.56% for the year ended December 31, 2020, primarily due to the lower prevailing interest rates in the money market, which was partially offset by the increase in the average balance by 19.3% from RMB20,270.2 million to RMB24,192.2 million, respectively, for the same years. Such increase in the average balance of financial assets held under resale agreements and deposits and placements with banks and other financial institutions was in turn resulted from the growth of deposits in 2020 and the consequent increase in available funds for financial investment.

Interest Expense

The following table sets forth the breakdown of our interest expense for the periods indicated.

	For the years ended December 31,			
	2019		2020	
	Amount	**% of total**	**Amount**	**% of total**
	(in millions of RMB, except percentages)			
Interest expense on				
Deposits from customers	5,125.4	59.9%	6,465.2	67.4%
Debt Securities Issued	1,891.2	22.1%	1,778.2	18.6%
Financial assets sold under repurchase agreements and deposits and placements from banks and other financial institutions	1,470.2	17.2%	1,002.2	10.5%
Borrowings from central banks	40.5	0.5%	322.5	3.4%
Lease liabilities	24.6	0.3%	17.1	0.2%
Total interest expense	**8,551.9**	**100.0%**	**9,585.2**	**100.0%**

Our interest expense increased by 12.1% from RMB8,551.9 million for the year ended December 31, 2019 to RMB9,585.2 million for the year ended December 31, 2020, primarily due to an increased average balance of total interest-bearing liabilities by 15.4% from RMB387,912.7 million to RMB447,638.6 million, respectively, for the same years, which was partially resulted from the increase of deposits from our customers. The increase was partially offset by a decrease in average cost from 2.20% as of December 31, 2019 to 2.14% as of December 31, 2020, resulting from the lower prevailing market rate.

Interest Expense on Deposits from Customers

Deposits from customers are our primary source of funding. Interest expense on deposits from customers represented 59.9% and 67.4% of our total interest expense for the years ended December 31, 2019 and 2020, respectively.

The following table sets forth the daily average balance, interest expense and average cost of our customer deposits by product type for the periods indicated.

	For the years ended December 31,					
	2019			2020		
	Average balance	Interest expense	Average cost	Average balance	Interest expense	Average cost
	(in millions of RMB, except percentages)					
Corporate deposits						
Demand	66,886.0	482.7	0.72%	71,032.2	545.2	0.77%
Time	47,859.3	1,869.9	3.91%	66,798.5	2,479.8	3.71%
Subtotal	114,745.3	2,352.6	2.05%	137,830.7	3,025.0	2.19%
Personal deposits						
Demand	87,168.9	481.5	0.55%	95,290.0	538.2	0.56%
Time	78,283.8	2,291.3	2.93%	97,762.6	2,902.0	2.97%
Subtotal	165,452.7	2,772.8	1.68%	193,052.6	3,440.2	1.78%
Total deposits from customers	**280,198.0**	**5,125.4**	**1.83%**	**330,883.3**	**6,465.2**	**1.95%**

Our interest expense on deposits from customers increased by 26.1% from RMB5,125.4 million for the year ended December 31, 2019 to RMB6,465.2 million for the year ended December 31, 2020, primarily due to (i) an increase in the average cost of our customer deposits from 1.83% to 1.95% for the same years, which in turn was a result of the increase of deposit cost due to competition in the industry; and (ii) an increase in the average balance of our customer deposits by 18.1% from RMB280,198.0 million for the year ended December 31, 2019 to RMB330,883.3 million for the year ended December 31, 2020, primarily due to increased amount of deposits from our customers.

Interest Expense on Financial Assets Sold under Repurchase Agreements and Deposits and Placements from Banks and Other Financial Institutions

Interest expense on financial assets sold under repurchase agreements and deposits and placements from banks and other financial institutions represented 17.2% and 10.5% of our interest expense for the years ended December 31, 2019 and 2020, respectively.

Our interest expense on financial assets sold under repurchase agreements and deposits and placements from banks and other financial institutions decreased from RMB1,470.2 million for the year ended December 31, 2019 to RMB1,002.2 million for the year ended December 31, 2020, primarily due to decreases in prevailing market interest rates and a 11.5% decrease in the average balance of financial assets sold under repurchase agreements and deposits and placements from banks and other financial institutions from RMB50,783.0 million to RMB44,960.6 million, respectively, for the same years, which was in turn primarily due to the decrease of interbank liabilities including the deposits from other domestic financial institutions, as we obtained certain medium-to-long-term and stable liabilities from the central bank through medium-term lending facility bidding.

Interest Expense on Debt Securities Issued

Interest expense on debt securities issued represented 22.1% and 18.6% of our interest expense for the years ended December 31, 2019 and 2020, respectively.

Our interest expense on debt securities issued decreased by 6.0% from RMB1,891.2 million for the year ended December 31, 2019 to RMB1,778.2 million for the year ended December 31, 2020, primarily due to lower interest rate of interbank certificates of deposits we issued in 2020 when compared with 2019, resulting from the lower capital market rates as a result of the loose liquidity in general.

Interest Expenses on Borrowings from Central Bank

Interest expense on borrowings from central bank represented 0.5% and 3.4% of our interest expense for the years ended December 31, 2019 and 2020, respectively.

Our interest expense on borrowing from the central bank increased by 696.3% from RMB40.5 million for the year ended December 31, 2019 to RMB322.5 million for the year ended December 31, 2020, primarily because our Bank actively participated in PBoC's medium-term lending facility bidding and acquired long-term and stable liabilities through borrowing from the central bank under the central bank's liquidity support policy in 2020.

Net Interest Spread and Net Interest Margin

Net interest spread is the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities. Net interest margin is the ratio of net interest income to the average balance of total interest-earning assets.

Our net interest spread remained the same at 2.10% for the years ended December 31, 2019 and 2020. Our net interest margin decreased from 2.18% for the year ended December 31, 2019 to 2.16% for the year ended December 31, 2020. The decrease in net interest margin was due to lower prevailing market rates.

Net Fee and Commission Income

Net fee and commission income represented 8.9% and 7.8% of our total operating income for the years ended December 31, 2019 and 2020, respectively. The following table sets forth the principal components of our net fee and commission income for the periods indicated.

	For the years ended December 31,	
	2019	2020
	(in millions of RMB)	
Fee and commission income		
Bank card services	447.8	350.4
Custodian and other fiduciary services	184.2	187.7
Wealth management agency services	459.3	328.7
Settlement and clearing services	44.6	56.6
Others	48.2	71.7
Subtotal	1,184.1	995.1
Fee and commission expenses	**(129.3)**	**(54.7)**
Net fee and commission income	**1,054.8**	**940.4**

Our net fee and commission income decreased by 10.8% from RMB1,054.8 million for the year ended December 31, 2019 to RMB940.4 million for the year ended December 31, 2020.

Fee and Commission Income

Our fee and commission income decreased by 16.0% from RMB1,184.1 million for the year ended December 31, 2019 to RMB995.1 million for the year ended December 31, 2020. The decrease was mainly due to a 28.4% decrease of income from wealth management agency fee from RMB459.3 million for the year ended December 31, 2019 to RMB328.7 million for the year ended December 31, 2020.

Bank Card Service Fees

Bank card service fees consisted primarily of transaction fees on the payment made with our bank cards. Bank card service fees decreased by 21.8% from RMB447.8 million for the year ended December 31, 2019 to RMB350.4 million for the year ended December 31, 2020, primarily due to the downward adjustment of bank card service fees in response to the market competition and to support rural vitalization.

Custodian and Other Fiduciary Service Fees

Custodian and other fiduciary service fees consisted primarily of fees earned on agency services for sales of insurances and other products issued by third parties. Custodian and other fiduciary service fees increased by 1.9% from RMB184.2 million for the year ended December 31, 2019 to RMB187.7 million for the year ended December 31, 2020, which remained relatively stable.

Wealth Management Agency Service Fee

Wealth management agency service fees consist primarily of fees and commissions received for wealth management agency services provided to our customers. Our wealth management agency service fees decreased by 28.4% from RMB459.3 million for the year ended December 31, 2019 to RMB328.7 million for the year ended December 31, 2020, primarily due to narrowed interest rate spreads as a result of slower growth in the scale of wealth management business during the transitional period of net value after the implementation of Asset Management Guiding Opinion.

Settlement and Clearing Services Fee

Settlement and clearing services fees consisted primarily of fees earned on settlement and clearing services in respect of bank acceptance bills, promissory notes and cheques, as well as fees earned on money transfers and clearing services. Settlement can be effectuated through our branch offices, automatic terminals or via internet and mobile banking. Our settlement fees and clearing service fee increased by 26.9% from RMB44.6 million for the year ended December 31, 2019 to RMB56.6 million for the year ended December 31, 2020, which remained relatively stable.

Fee and Commission Expense

Fee and commission expenses consist primarily of fees paid to third parties in connection with our fee and commission-based services that can be directly allocated to the provision of such services. Our fee and commission expenses decreased by 57.7% from RMB129.3 million for the year ended December 31, 2019 to RMB54.7 million for the year ended December 31, 2020.

Other Components of Our Operating Income

The following table sets forth other components of our operating income for the periods indicated.

	For the years ended December 31,			
	2019	% of total	2020	% of total
	(in millions of RMB)			
Net trading gains	1,133.3	58.4%	881.3	75.0%
Net gains on financial investments	462.9	23.9%	181.9	15.5%
Other operating income[1]	343.0	17.7%	111.0	9.5%
Total	**1,939.2**	**100.0%**	**1,174.2**	**100.0%**

Note:
(1) Consisted primarily of rental income and government grants.

Net Trading Gains

Since January 1, 2018, our net trading gains consisted primarily of interest income and disposal gains of financial assets at fair value through profit or loss, exchange gains, and gains and losses from precious metals business. Our net trading gains decreased by 22.2% from RMB1,133.3 million for the year ended December 31, 2019 to RMB881.3 million for the year ended December 31, 2020, primarily due to the decrease in changes in the fair value of debt securities and fund investments we invested as a result of increased interest rates of debt securities market in 2020. The following table sets forth other components of our net trading gains for the years indicated.

	For the years ended December 31,	
	2019	2020
	(in millions of RMB)	
Net gains on financial assets held for trading	1,045.7	779.1
Exchange gains	86.7	104.5
Gains/(losses) on precious metal	0.9	(2.3)
Total	**1,133.3**	**881.3**

Net Gains on Financial Investments

Net gains on financial investments consist primarily of interest income, dividend income from financial asset investments and gains from sale of debt instruments. Our net gains on financial investments decreased from RMB462.9 million for the year ended December 31, 2019 to RMB181.9 million for the year ended December 31, 2020, primarily attributable to the decrease of revenue due to changes in the valuation of financial investment assets. The following table sets forth the components of net gains on financial investment.

	For the years ended December 31,	
	2019	**2020**
	(in millions of RMB)	
Net (losses)/gains on debt instrument investments at fair value through other comprehensive income	278.1	384.3
Net gains on other financial assets at fair value through profit or loss	141.3	(239.8)
Net losses on derecognition of financial assets at amortized cost	—	3.1
Dividend income from equity instruments	43.5	34.3
Total	**462.9**	**181.9**

Other Operating Incomes

Other operating incomes mainly include gains from sale of fixed assets and rental income. In 2019 and 2020, other operating incomes were RMB343.0 million and RMB111.0 million, respectively. The following table sets forth the principal components of our other operating incomes for the years indicated.

	For the years ended December 31,	
	2019	**2020**
	(in millions of RMB)	
Gains from sale of fixed assets(1)	296.4	73.5
Rental income	33.9	24.4
Government grants	9.1	1.8
Others	3.6	11.3
Total	**343.0**	**111.0**

Note:

(1) Consisted primarily of our disposal of certain properties with relatively long useful lives, low net values and low values in use.

Operating Expenses

The following table sets forth the principal components of our total operating expenses for the periods indicated.

	For the years ended December 31,			
	2019	**% of total**	**2020**	**% of total**
	(in millions of RMB)			
Staff expense	2,402.2	67.9%	2,718.8	69.3%
Office and administrative expenses	615.5	17.4%	696.3	17.7%
Depreciation and amortization	320.2	9.1%	351.1	8.9%
Tax and surcharges	134.3	3.8%	128.3	3.3%
Auditors' remuneration	3.6	0.1%	3.7	0.1%
Other	60.0	1.7%	26.7	0.7%
Total operating expenses	**3,535.8**	**100.0%**	**3,924.9**	**100.0%**

Our operating expenses increased by 11.0% from RMB3,535.8 million for the year ended December 31, 2019 to RMB3,924.9 million for the year ended December 31, 2020, primarily attributable to an increase in staff expenses. Our cost-to-income ratio (excluding tax expenses and surcharges) was 28.84% and 31.51% for the years ended December 31, 2019 and 2020, respectively. The increase in our cost-to-income ratio was primarily attributable to the acquisition of Zhanjiang RCB, which had higher cost-to-income ratio than our Group. Consolidation of Zhangjiang RCB's cost and income in 2020 into the financial statements of the Group, resulted in higher average cost-to-income ratio of the Group in 2020.

Staff Expenses

Staff expenses were the largest component of our operating expenses, representing 67.9% and 69.3% of our total operating expenses for the years ended December 31, 2019 and 2020, respectively.

The following table sets forth the components of our staff costs for the periods indicated.

	For the years ended December 31,			
	2019	**% of total**	**2020**	**% of total**
	(in millions of RMB)			
Salaries, bonuses, allowances and subsidies	1,753.0	73.0%	2,005.1	73.7%
Social security and benefits	434.2	18.0%	475.7	17.5%
Enterprise annuity scheme	139.0	5.8%	152.4	5.6%
Labor union fees and employee education expenses	76.0	3.2%	85.6	3.2%
Total staff costs	**2,402.2**	**100.0%**	**2,718.8**	**100.0%**

Staff expenses increased by 13.2% from RMB2,402.2 million for the year ended December 31, 2019 to RMB2,718.8 million for the year ended December 31, 2020, primarily due to growth of the size of our work force and salary level.

Salaries, bonuses, allowances and subsidies are the largest component of our staff expenses, representing 73.0% and 73.7% of our total staff costs for the years ended December 31, 2019 and 2020, respectively.

Salaries, bonuses, allowances and subsidies increased by 14.4% from RMB1,753.0 million for the year ended December 31, 2019 to RMB2,005.1 million for the year ended December 31, 2020, primarily due to growth of the size of our work force and salary level.

Office and Administrative Expenses

Office and administrative expenses represented 17.4% and 17.7% of our total operating expenses for the years ended December 31, 2019 and 2020, respectively. Office and administrative expenses consisted primarily of business marketing expenses, electronic equipment operating costs, security expenses and insurance premiums. Office and administrative expenses increased by 13.1% from RMB615.5 million for the year ended December 31, 2019 to RMB696.3 million for the year ended December 31, 2020, primarily due to an increase of advertising and business promotion costs and the consolidation of the expenses related to of our subsidiary Zhanjiang RCB throughout the year in 2020.

Depreciation and Amortization

Depreciation and amortization was mainly associated with depreciation of our property and equipment, and amortization of software, right-to-use assets, investment properties and long-term deferred expenses. Depreciation and amortization represented 9.1% and 8.9% of our total operating expenses for the years ended December 31, 2019 and 2020, respectively. Depreciation and amortization increased by 9.7% from RMB320.2 million for the year ended December 31, 2019 to RMB351.1 million for the year ended December 31, 2020, primarily due to the consolidation of Zhanjiang RCB throughout the year in 2020.

Tax and Surcharges

Tax and surcharges decreased by 4.5% from RMB134.3 million for the year ended December 31, 2019 to RMB128.3 million for the year ended December 31, 2020, primarily due to the overall change in tax and surcharges was not significant due to an increase in our VAT revenue and a decrease in related surcharges.

Expected Credit Losses and Asset Losses

Expected credit loss is weighted average credit losses weighted by the probability of default, primarily including expected credit loss in our loans and advances to customers, financial investments, guarantees, financial assets held under resale agreements and deposits and placement with banks and other financial institutions. Our expected credit losses and asset losses increased by 7.0% from RMB2,593.5 million for the year ended December 31, 2019 to RMB2,774.3 million for the year ended December 31, 2020, primarily due to the purchase of certain non-credit asset. In particular, we acquired from a state-owned asset management company the rights to earnings of certain non-performing collateralized loans secured by real estate properties, non-performing guaranteed loans and foreclosed real estate collateral of Chaoyang RCCU and recognized an asset loss of RMB2,298.2 million based on the results of the fair value assessment of the acquired assets. For details, please see "History, Development and Corporate Structure — Material Acquisition during the Track Record Period — Establishment of Chaoyang RCB — Acquisition of non-performing assets of Chaoyang RCCU" in the prospectus.

In addition, the expected credit loss of our financial investment for 2020 decreased by RMB1,620.9 million from 2019, mainly due to the restructuring of our investment in 2019 to reduce the percentage of corporate bonds. In addition, provision recognized in the previous two years was sufficient to cover the credit risk of such assets. The expected credit loss of customer loans and advances for 2020 decreased by RMB491.5 million when compared with 2019, mainly due to the decrease in both NPL and NPL ratio and improvement in asset quality.

The following table sets forth the components of our expected credit losses and asset losses for the years indicated.

	For the years ended December 31,	
	2019	2020
	(in millions of RMB)	
Financial investments	1,709.6	88.7
Loans and advances to customers	790.3	298.8
Credit commitments	6.7	5.5
Financial assets held under resale agreements and deposits and placements with banks and other financial institutions	11.0	7.4
Asset losses	—	2,298.2
Others[(1)]	75.9	75.7
Total	**2,593.5**	**2,774.3**

Note:

(1) Mainly consisted of provisions for other assets.

Income Tax Expenses

The following table sets forth the reconciliation between the income tax expenses calculated at the statutory income tax rate applicable to our profit before tax and our actual income tax expenses for the periods indicated.

	For the years ended December 31,	
	2019	2020
	(in millions of RMB)	
Profit before tax	**5,700.8**	**5,372.1**
Income tax calculated at the tax rate of 25%	1,425.2	1,343.0
Impact of income not subject to tax[(1)]	(752.2)	(1,106.8)
Profit or loss attributable to associates	(8.7)	(6.1)
Non-deductible tax effect[(2)]	51.6	86.8
Derecognition of previously recognized deferred tax assets and others	114.8	—
Effect of preferential tax rate applicable to a subsidiary[(3)]	(0.1)	(0.1)
Income tax expense	**830.6**	**316.8**

Notes:

(1) Mainly consisted of interest income from debt securities issued by PRC governments, which is non-taxable in accordance with PRC tax regulations.

(2) Mainly consisted of expenditures in excess of limitation of tax deduction in accordance with PRC tax regulations.

(3) Referred to our controlled subsidiary, Hezhou Babu Dongying County Bank, which was subject to a reduced income tax rate at 15% as it qualified in industries encouraged to develop in the western region of the PRC.

Our income tax expenses decreased by 61.9% from RMB830.6 million for the year ended December 31, 2019 to RMB316.8 million for the year ended December 31, 2020, which is mainly attributable to an increase in our non-taxable income, as a result of our increased investment in debt securities issued by PRC Government and funds that is tax free according to relevant PRC laws and regulations. Our effective income tax rate was 14.6% and 5.9% for the years ended December 31, 2019 and 2020, respectively.

The following table sets forth, for the periods indicated, the components of our income tax expenses.

	For the years ended December 31,	
	2019	**2020**
	(in millions of RMB)	
Current income tax	1,188.6	971.4
Deferred income tax	(358.0)	(654.6)
Total income tax expenses	**830.6**	**316.8**

Net Profit

Primarily as a result of all the foregoing factors, our net profit increased by 3.8% from RMB4,870.2 million for the year ended December 31, 2019 to RMB5,055.3 million for the year ended December 31, 2020.

Other Comprehensive Income/(Losses)

	For the years ended December 31,	
	2019	**2020**
	(in millions of RMB)	
Items which may be reclassified to profit or loss		
Changes in fair value of financial assets at fair value through other comprehensive income	(865.1)	(1,510.2)
Credit impairment provision for financial assets at fair value through other comprehensive income	1,731.0	98.4
Impact on income tax on changes in fair value and credit impairment provision of financial assets at fair value through other comprehensive income	(216.4)	352.9
Items will not be reclassified to profit or loss		
Changes in fair value of equity instruments designated at fair value through other comprehensive income	10.6	2.5
Impact on income tax on changes in fair value of equity instruments designated at fair value through other comprehensive income	(2.6)	(0.6)
Other Comprehensive Income/(Losses)	**657.5**	**(1,057.0)**

Our financial assets measured at fair value through other comprehensive income primarily consist of re-discounted bills, debt securities, rights to earning on credit assets, wealth management products for direct financing and unlisted equity investments. We recorded loss from changes in fair value of financial assets at fair value through other comprehensive income at the amount of RMB865.1 million and RMB1,510.2 million in 2019 and 2020, respectively. Such increase was primarily due to the increase in prevailing interest rate of debt securities in 2020, which resulted in a decrease in fair value of our financial assets. We incurred impairment losses of RMB1,731.0 million and RMB98.4 million on such financial assets in 2019 and 2020, respectively, in accordance with the expected credit loss model under IFRS 9. Such significant higher impairment loss in 2019 was because of the increasing credit risk in relation to the debt securities market in 2019, and we increased our credit impairment provision accordingly to reflect the associated risks for 2019.

RESULTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2019

Net Interest Income

We generated the majority of our operating income from net interest income for the years ended December 31, 2018 and 2019, which represented 74.9% and 74.6% of our operating income of the same years, respectively.

The following table sets forth our interest income, interest expense and net interest income for the periods indicated.

	For the years ended December 31,	
	2018	**2019**
	(in millions of RMB)	
Interest income	16,114.7	17,353.1
Interest expense	(8,794.3)	(8,551.9)
Net interest income	**7,320.4**	**8,801.2**

Our net interest income increased by 20.2% from RMB7,320.4 million for the year ended December 31, 2018 to RMB8,801.2 million for the year ended December 31, 2019, primarily due to an 7.7% increase in our interest income and a 2.8% decrease in our interest expense.

The following table sets forth the average balances of our interest-earning assets and interest-bearing liabilities, the related interest income or expense and the related average yields on assets or related average costs of liabilities for the periods indicated.

	For the years ended December 31,					
	2018			2019		
	Average balance	Interest income/ expense	Average yield/ cost(1)	Average balance	Interest income/ expense	Average yield/ cost(1)
	(in millions of RMB, except percentages)					
Interest-earning assets						
Loans and advances to customers	154,681.0	8,598.4	5.56%	185,401.4	10,149.5	5.47%
Financial investments	151,465.7	6,523.4	4.31%	159,621.6	6,256.6	3.92%
Deposits with central bank	35,553.7	558.8	1.57%	37,885.6	462.6	1.22%
Financial assets held under resale agreements and deposits and placements with banks and other financial institutions	15,624.1	434.1	2.78%	20,270.2	484.4	2.39%
Total interest-earning assets	**357,324.5**	**16,114.7**	**4.51%**	**403,178.8**	**17,353.1**	**4.30%**
Interest-bearing liabilities						
Deposits from customers	247,826.0	4,457.8	1.80%	280,198.0	5,125.4	1.83%
Debt securities issued	44,118.7	1,990.5	4.51%	54,981.8	1,891.2	3.44%
Financial assets sold under repurchase agreements and deposits and placements from banks and other financial institutions	55,033.3	2,314.4	4.21%	50,783.0	1,470.2	2.90%
Borrowings from central banks	324.9	10.0	3.06%	1,471.7	40.5	2.75%
Leasing liability	406.7	21.6	5.34%	478.2	24.6	5.12%
Total interest-bearing liabilities	**347,709.6**	**8,794.3**	**2.53%**	**387,912.7**	**8,551.9**	**2.20%**
Net interest income		**7,320.4**			**8,801.2**	
Net interest spread(2)			**1.98%**			**2.10%**
Net interest margin(3)			**2.05%**			**2.18%**

Notes:

(1) Calculated by dividing interest income/expense by the average balance.

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

(3) Calculated by dividing net interest income by the average balance of total interest-earning assets.

The following table sets forth the allocation of changes in our interest income and interest expense due to changes in volume and changes in rate for the periods indicated. Changes in volume are measured by changes in the average balances and changes in rate are measured by changes in the average rates. Changes caused by both volume and rate have been allocated to changes in volume.

	For the years ended December 31,		
	2019 vs. 2018		
	Increase/ (decrease) due to		Net increase/
	Volume[(1)]	Rate[(2)]	(decrease)[(3)]
	(in millions of RMB)		
Interest-earning assets			
Deposits with central bank[(4)]	36.7	(132.9)	(96.2)
Financial assets held under resale agreements and deposits and placements with banks and other financial institutions	129.0	(78.7)	50.3
Loans and advances to customers	1,707.7	(156.6)	1,551.1
Financial investments[(5)]	351.3	(618.1)	(266.8)
Changes in interest income	2,224.7	(986.3)	1,238.4
Interest-bearing liabilities			
Borrowing from central bank	35.1	(4.6)	30.5
Financial assets sold under repurchase agreements and deposits and placements from banks and other financial institutions	(178.7)	(665.5)	(844.2)
Deposits from customers	582.3	85.3	667.6
Debt securities issued[(6)]	490.1	(589.4)	(99.3)
Lease liabilities	3.8	(0.8)	3.0
Changes in interest expense	932.6	(1,175.0)	(242.4)
Changes in net interest income	1,292.1	188.7	1,480.8

Notes:

(1) Represents the average balance for the period minus the average balance for the previous period, multiplied by the average yield/cost of the previous year.

(2) Represents the average yield/cost for the period minus the average yield/cost for the previous year, multiplied by the average balance for the period.

(3) Represents interest income/expense for the period minus interest income/expense for the previous period.

(4) Consisted primarily of statutory deposit reserves and surplus deposit reserves.

(5) Consisted primarily of interest-earning financial investments at amortized costs and financial investments at fair value through other comprehensive income. Since interest income from financial assets at fair value through profit or loss is regarded as trading gains under IFRS 9, financial assets at fair value through profit or loss are excluded for the purpose of the above table.

(6) Consisted primarily of interbank certificates of deposits, tier-two capital debt securities and green financial debt securities.

Interest Income

The following table sets forth the breakdown of our interest income for the periods indicated.

	For the years ended December 31,			
	2018		2019	
	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)			
Interest income from				
Deposits with central bank	558.8	3.4%	462.6	2.6%
Financial assets held under resale agreements and deposits and placements with banks and other financial institutions	434.1	2.7%	484.4	2.8%
Loans and advances to customers	8,598.4	53.4%	10,149.5	58.5%
Financial investments	6,523.4	40.5%	6,256.6	36.1%
Total interest income	**16,114.7**	**100.0%**	**17,353.1**	**100.0%**

Our interest income increased by 7.7% from RMB16,114.7 million for the year ended December 31, 2018 to RMB17,353.1 million for the year ended December 31, 2019, primarily due to a 12.8% increase in the average balance of our interest-earning assets from RMB357,324.5 million for the year ended December 31, 2018 to RMB403,178.8 million for the year ended December 31, 2019.

Interest Income from Loans and Advances to Customers

Interest income from loans and advances to customers accounted for 53.4% and 58.5% of our interest income for the years ended December 31, 2018 and 2019, respectively.

Our loans and advances to customers consisted of corporate loans and advances, personal loans and advances and discounted bills. The following table sets forth the daily average balance, interest income and average yield for each component of our loans and advances to customers for the years indicated.

	For the years ended December 31,					
	2018			2019		
	Average balance	Interest income	Average yield	Average balance	Interest income	Average yield
	(in millions of RMB, except percentages)					
Corporate loans and advances	92,765.3	5,831.9	6.29%	101,677.5	6,647.3	6.54%
Personal loans and advances	45,952.6	2,157.6	4.70%	65,008.0	2,917.4	4.49%
Discounted bills	15,963.1	608.9	3.81%	18,715.9	584.8	3.12%
Total	**154,681.0**	**8,598.4**	**5.56%**	**185,401.4**	**10,149.5**	**5.47%**

Our interest income from loans and advances to customers increased by 18.0% from RMB8,598.4 million for the year ended December 31, 2018 to RMB10,149.5 million for the year ended December 31, 2019, primarily due to the increase in the aggregate loan amount we granted to our customers, evidenced by the increase in the average balance of our total loans and advances to customers from RMB154,681.0 million for the year ended December 31, 2018 to RMB185,401.4 million for the year ended December 31, 2019. The average yield on our loans and advances to customers remained relatively stable at 5.56% and 5.47%, respectively, for the years ended December 31, 2018 and 2019.

Corporate Loans and Advances. Interest income from corporate loans and advances was the largest component of our interest income from loans and advances to customers, representing 67.8% and 65.5% of our total interest income from loans and advances to customers for the years ended December 31, 2018 and 2019, respectively.

Our interest income from corporate loans and advances increased by 14.0% from RMB5,831.9 million for the year ended December 31, 2018 to RMB6,647.3 million for the year ended December 31, 2019. The average balance of our corporate loans and advances increased by 9.6% from RMB92,765.3 million for the year ended December 31, 2018 to RMB101,677.5 million for the year ended December 31, 2019. The average yield on our corporate loans and advances increased from 6.29% for the year ended December 31, 2018 to 6.54% for the year ended December 31, 2019, primarily due to the increase in the amount and proportion of loans with higher interest rates.

Personal Loans and Advances. Interest income from personal loans and advances accounted for 25.1% and 28.7% of our total interest income from loans and advances to customers for the years ended December 31, 2018 and 2019, respectively.

Interest income from personal loans and advances increased by 35.2% from RMB2,157.6 million for the year ended December 31, 2018 to RMB2,917.4 million for the year ended December 31, 2019, mainly due to the increase in average balance. The average balance of our personal loans and advances increased by 41.5% from RMB45,952.6 million for the year ended December 31, 2018 to RMB65,008.0 million for the year ended December 31, 2019, primarily due to our effort to expand our personal loan business. The average yield on our personal loans and advances decreased from 4.70% for the year ended December 31, 2018 to 4.49% for the year ended December 31, 2019, primarily due to the lower interest rate of online loan products newly launched in 2019 as compared with 2018, and the downward adjustment of interest rate of online loan products in 2019.

Discounted bill. Interest income from discounted bill accounted for 7.1% and 5.8% of our total interest income from loans and advances to customers for the years ended December 31, 2018 and 2019, respectively.

Interest income from discounted bill decreased by 4.0% from RMB608.9 million for the year ended December 31, 2018 to RMB584.8 million for the year ended December 31, 2019, primarily due to the decrease in average yields from 3.81% for the year ended December 31, 2018 to 3.12% for the year ended December 31, 2019, which was in turn primarily due to the decrease in prevailing market interest rates.

Interest Income from Financial Investments

Interest income from financial investments represented 40.5% and 36.1% of our total interest income for the years ended December 31, 2018 and 2019, respectively.

Since the adoption of IFRS 9 during the Track Record Period, our interest income from financial investments consisted of interest income from our financial investments at amortized costs, financial investments at fair value through other comprehensive income.

Our interest income from financial investments decreased by 4.1% from RMB6,523.4 million for the year ended December 31, 2018 to RMB6,256.6 million for the year ended December 31, 2019, primarily due to the decrease in average yields from 4.31% for the year ended December 31, 2018 to 3.92% for the year ended December 31, 2019, which was in turn primarily due to the decreases in interest rates and yields of newly invested debt securities, which was in turn due to the lower prevailing market interest rates. The decrease in interest income from financial investment was partially offset by the increase in average balance of our financial investments increased by 5.4% from RMB151,465.7 million for the year ended December 31, 2018 to RMB159,621.6 million as at December 31, 2019, primarily due to increase in our investment in financial instrument, which was in turn driven by the growth of deposits in 2019 and the consequent increase in available funds for financial investment.

The following table sets forth a breakdown of the average balances and interest income of debt securities investment, rights to earnings on credit assets, wealth management direct financing instruments as well as their respective average yields for the years indicated:

	For the years ended December 31,					
	2018			2019		
	Average balance	Interest income	Average yield	Average balance	Interest income	Average yield
	(in millions of RMB, except percentages)					
Interest income from financial investments						
Debt securities investment	138,748.3	5,824.2	4.20%	136,104.1	5,057.2	3.72%
Rights to earnings on credit assets	8,848.9	500.8	5.66%	15,495.2	716.4	4.62%
Wealth management instruments for direct financing	3,868.5	198.4	5.13%	8,022.3	483.0	6.02%
Total	**151,465.7**	**6,523.4**	**4.31%**	**159,621.6**	**6,256.6**	**3.92%**

The substantial majority of our interest income from financial investments for the years ended December 31, 2018 and 2019 was generated from investment in debt securities, which represented 89.3% and 80.8% of our total interest income from financial investment, respectively. The average yields of our investment in debt securities decreased from 4.20% in 2018 to 3.72% in 2019, mainly due to the decrease in interest rates and yields of newly invested debt securities, which was in turn due to the lower prevailing market interest rates.

The interest income of rights to earnings on credit assets in 2018 and 2019 represented 7.7% and 11.5%, respectively, of our interest income from financial investments. The average yields of our rights to earnings on credit assets decreased from 5.66% for the year ended December 31, 2018 to 4.62% for the year ended December 31, 2019, mainly due to the general decrease in the prevailing market interest rates in 2019. In addition, we implemented strict risk management policies in 2019 that heightened our review and approval standards for financial investments, including heightened standards for asset quality of issuers of financial instrument we invest in.

The interest income of wealth management instruments for direct financing in 2018 and 2019 represented 3.0% and 7.7% of our interest income from financial investment, respectively. The average yields of our wealth management direct financing instruments increased from 5.13% in 2018 to 6.02% in 2019, mainly due to increases in interest rates of the wealth management instruments for direct financing we invested in.

For a breakdown of the balances of our financial investments by business model and cashflow characteristics as of December 31, 2018 and 2019 and their corresponding components, please see "Assets and Liabilities — Assets — Financial Assets — Distribution by Business Model and Cashflow Characteristics.

Interest Income from Deposits with Central Bank

Interest income from deposits with central bank represented 3.4% and 2.6% of our interest income for the years ended December 31, 2018 and 2019, respectively.

Our interest-earning assets balances of our deposits with central bank consist primarily of statutory deposit reserves and surplus deposit reserves with PBoC. Statutory deposit reserves represent the minimum level of cash deposits that we are required to maintain at PBoC, calculated as a percentage of the balance of our general deposits from customers. Surplus deposit reserves are deposits with PBoC in excess of statutory deposit reserves, which we maintain with PBoC for clearing purposes.

Our interest income from deposits with central bank decreased by 17.2% from RMB558.8 million for the year ended December 31, 2018 to RMB462.6 million for the year ended December 31, 2019, primarily due to a decrease in the average yields of our deposits with central bank. The average balance of our deposits with central bank increased by 6.6% from RMB35,553.7 million for the year ended December 31, 2018 to RMB37,885.6 million for the year ended December 31, 2019, primarily due to the consolidation of Zhanjiang RCB. The average yields of our deposits with central bank decreased from 1.57% for the year ended December 31, 2018 to 1.22% for the year ended December 31, 2019, primarily due to the increase in the proportion of surplus deposits reserve which had lower yield.

Interest Income from Financial Assets Held under Resale Agreements and Deposits and Placements with Banks and Other Financial Institutions

Interest income from financial assets held under resale agreements and deposits and placements with banks and other financial institutions represented 2.7% and 2.8% of our interest income for the years ended December 31, 2018 and 2019, respectively.

Our interest income from financial assets held under resale agreements and deposits and placements with banks and other financial institutions increased by 11.6% from RMB434.1 million for the year ended December 31, 2018 to RMB484.4 million for the year ended December 31, 2019, primarily due to the increase in the average balance by 29.7% from RMB15,624.1 million for the year ended December 31, 2018 to RMB20,270.2 million for the year ended December 31, 2019, which was in turn due to the growth of deposit in 2019 and the consequent increase in available funds for financial investment. The average yield on these financial assets held under resale agreements and deposits and placements with banks and other financial institutions decreased from 2.78% for the year ended December 31, 2018 to 2.39% for the year ended December 31, 2019, primarily due to the lower prevailing interest rates in the money market.

Interest Expense

The following table sets forth the breakdown of our interest expense for the periods indicated.

	For the years ended December 31,			
	2018		2019	
	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)			
Interest expense on				
Borrowings from central banks	10.0	0.1%	40.5	0.5%
Financial assets sold under repurchase agreements and deposits and placements from banks and other financial institutions	2,314.4	26.3%	1,470.2	17.2%
Deposits from customers	4,457.8	50.7%	5,125.4	59.9%
Debt Securities Issued	1,990.5	22.7%	1,891.2	22.1%
Lease liabilities	21.6	0.2%	24.6	0.3%
Total interest expense	**8,794.3**	**100.0%**	**8,551.9**	**100.0%**

Our interest expense decreased by 2.8% from RMB8,794.3 million for the year ended December 31, 2018 to RMB8,551.9 million for the year ended December 31, 2019, primarily due to a 36.5% decrease in interest expense related to financial assets sold under repurchase agreements and deposits and placements from banks and other financial institutions which was in turn attributable to decreases in investment amount and interest rates. The decrease was partially offset by an 15.0% increase in interest expense from deposit from customers.

Interest Expense on Deposits from Customers

Deposits from customers are our primary source of funding. Interest expense on deposits from customers represented 50.7% and 59.9% of our total interest expense for the years ended December 31, 2018 and 2019, respectively.

The following table sets forth the daily average balance, interest expense and average cost of our customer deposits by product type for the periods indicated.

	For the years ended December 31,					
	2018			2019		
	Average balance	Interest expense	Average cost	Average balance	Interest expense	Average cost
	(in millions of RMB, except percentages)					
Corporate deposits						
Demand	57,378.1	422.9	0.74%	66,886.0	482.7	0.72%
Time	43,841.4	1,653.3	3.77%	47,859.3	1,869.9	3.91%
Subtotal	101,219.5	2,076.2	2.05%	114,745.3	2,352.6	2.05%
Personal deposits						
Demand	78,466.1	446.6	0.57%	87,168.9	481.5	0.55%
Time	68,140.4	1,935.0	2.84%	78,283.8	2,291.3	2.93%
Subtotal	146,606.5	2,381.6	1.62%	165,452.7	2,772.8	1.68%
Total deposits from customers	**247,826.0**	**4,457.8**	**1.80%**	**280,198.0**	**5,125.4**	**1.83%**

Our interest expense on deposits from customers increased by 15.0% from RMB4,457.8 million for the year ended December 31, 2018 to RMB5,125.4 million for the year ended December 31, 2019, primarily due to an increase in the average balance of our deposits from customers. The average balance of our customer deposits increased by 13.1% from RMB247,826.0 million for the year ended December 31, 2018 to RMB280,198.0 million for the year ended December 31, 2019, primarily due to increased amount of deposits from our customers. The average cost of our customer deposits increased from 1.80% of our interest expense for the year ended December 31, 2018 to 1.83% of our interest expense for the year ended December 31, 2019, primarily due to the increase of deposit cost resulting from competition in the industry.

Interest Expense on Financial Assets Sold under Repurchase Agreements and Deposits and Placements from Banks and Other Financial Institutions

Interest expense on financial assets sold under repurchase agreements and deposits and placements from banks and other financial institutions represented 26.3% and 17.2% of our interest expense for the years ended December 31, 2018 and 2019, respectively.

Our interest expense on financial assets sold under repurchase agreements and deposits and placements from banks and other financial institutions decreased from RMB2,314.4 million for the year ended December 31, 2018 to RMB1,470.2 million for the year ended December 31, 2019, primarily due to decreases in prevailing market interest rates and a 7.7% decrease in the average balance of financial assets sold under repurchase agreements and deposits and placements from banks and other financial institutions from RMB55,033.3 million for the year ended December 31, 2018 to RMB50,783.0 million for the year ended December 31, 2019, which was in turn primarily due to our efforts to partially replace deposits and placement from banks and other financial institutions with the standardized interbank certificates of deposits.

Interest Expense on Debt Securities Issued

Interest expense on debt securities issued represented 22.7% and 22.1% of our interest expense for the years ended December 31, 2018 and 2019, respectively.

Our interest expense on debt securities issued decreased by 5.0% from RMB1,990.5 million for the year ended December 31, 2018 to RMB1,891.2 million for the year ended December 31, 2019, primarily due to lower interest rate of interbank certificates of deposits we issued in 2019 when compared with 2018 resulting from the lower prevailing market rates due to higher money market liquidity in 2019.

Interest Expenses on Borrowings from Central Bank

Interest expense on borrowings from central bank represented 0.1% and 0.5% of our interest expense for the years ended December 31, 2018 and 2019, respectively.

Our interest expense on borrowing from the central bank increased by 305.0% from RMB10.0 million for the year ended December 31, 2018 to RMB40.5 million for the year ended December 31, 2019, primarily due to an increase in average balance of borrowing, which was partially offset by a decrease in average cost of borrowing. Average balance of borrowing from the central bank increased from RMB324.9 million for the year ended December 31, 2018 to RMB1,471.1 million for the year ended December 31, 2019, primarily due to an increase in our borrowing from the central bank for the purpose of supporting SMEs. Average cost of borrowing from the central bank decreased from 3.06% for the year ended December 31, 2018 to 2.75% for the year ended December 31, 2019, primarily due to full repayment of the loans from the central bank with high interest rate in 2018 when due, and the lower interest rate on new loans from the central bank in 2019.

Net Interest Spread and Net Interest Margin

Net interest spread is the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities. Net interest margin is the ratio of net interest income to the daily average balance of total interest-earning assets.

Our net interest spread increased from 1.98% for the year ended December 31, 2018 to 2.10% for the year ended December 31, 2019. Our net interest margin increased from 2.05% for the year ended December 31, 2018 to 2.18% for the year ended December 31, 2019. The increases in both net interest spread and net interest margin were due to decreased costs of interbank liabilities.

Net Fee and Commission Income

Net fee and commission income represented 9.7% and 8.9% of our total operating income for the years ended December 31, 2018 and 2019, respectively. The following table sets forth the principal components of our net fee and commission income for the periods indicated.

	For the years ended December 31,	
	2018	**2019**
	(in millions of RMB)	
Fee and commission income		
Bank card services	477.9	447.8
Custodian and other fiduciary services	189.2	184.2
Wealth management agency services	311.6	459.3
Settlement and clearing services	39.5	44.6
Others	34.5	48.2
Subtotal	1,052.7	1,184.1
Fee and commission expenses	**(101.1)**	**(129.3)**
Net fee and commission income	**951.6**	**1,054.8**

Our net fee and commission income increased by 10.8% from RMB951.6 million for the year ended December 31, 2018 to RMB1,054.8 million for the year ended December 31, 2019.

Fee and Commission Income

Our fee and commission income increased by 12.5% from RMB1,052.7 million for the year ended December 31, 2018 to RMB1,184.1 million for the year ended December 31, 2019. The increase was mainly due to a 47.4% increase of income from wealth management agency fee from RMB311.6 million for the year ended December 31, 2018 to RMB459.3 million for the year ended December 31, 2019.

Bank Card Service Fees

Bank card service fees consisted primarily of transaction fees on the payment made with our bank cards. Bank card service fees was RMB477.9 million and RMB447.8 million for the years ended December 31, 2018 and 2019, which remained relatively stable.

Custodian and Other Fiduciary Service Fees

Custodian and other fiduciary service fees consisted primarily of fees earned on agency services for sales of insurances and other products issued by third parties. Custodian and other fiduciary service fees decreased by 2.6% from RMB189.2 million for the year ended December 31, 2018 to RMB184.2 million for the year ended December 31, 2019, primarily due to decrease in the amount of debt securities issued by third parties.

Wealth Management Agency Service Fee

Wealth management agency service fees consist primarily of fees and commissions received for wealth management agency services provided to our customers. Our wealth management agency service fees increased by 47.4% from RMB311.6 million for the year ended December 31, 2018 to RMB459.3 million for the year ended December 31, 2019, primarily due to improved interest rate spreads.

Settlement and Clearing Services Fee

Settlement and clearing services fees consisted primarily of fees earned on settlement and clearing services in respect of bank acceptance bills, promissory notes and cheques, as well as fees earned on money transfers and clearing services. Settlement can be effectuated through our branch offices, automatic terminals or via internet and mobile banking. Our settlement fees and clearing service fee increased from RMB39.5 million for the year ended December 31, 2018 to RMB44.6 million for the year ended December 31, 2019, primarily due to an increase in service fee from our online third-party payment transactions, which was conducted by our Bank in cooperation with qualified third-party payment institutions. As of December 31, 2019 and 2020 and March 31, 2021, the number of our online third-party payment transactions was about 310.7 million, 339.2 million and 83.1 million respectively.

Fee and Commission Expense

Fee and commission expenses consist primarily of fees paid to third parties in connection with our fee and commission-based services that can be directly allocated to the provision of such services. We launched our internet loan business in 2018. As of December 31, 2018, 2019 and 2020 and March 31, 2021, our loans and advances to customers under our internet loan business were RMB1,775.6 million, RMB16,507.6 million, RMB20,270.6 million and RMB23,480.6 million, respectively. Our fee and commission expenses increased by 27.9% from RMB101.1 million for the year ended December 31, 2018 to RMB129.3 million for the year ended December 31, 2019, primarily due to the increase in our payment of platform fee which was in turn due to the growth in our internet loan business. Such platform fee consists primarily of the fee paid by our Bank in connection with third-party services needed in the development of our internet loan business, the increase was in line with the growth of our internet loan business. Please also refer to "Business — Distribution Network — Overview — Electronic Banking Channels — Online Banking" in this prospectus.

Other Components of Our Operating Income

The following table sets forth other components of our operating income for the periods indicated.

	For the years ended December 31,			
	2018	**% of total**	**2019**	**% of total**
	(in millions of RMB)			
Net trading gains	1,223.0	81.2%	1,133.3	58.4%
Net gains on financial investments	82.0	5.4%	462.9	23.9%
Other operating income(1)	200.6	13.4%	343.0	17.7%
Total	**1,505.6**	**100.0%**	**1,939.2**	**100.0%**

Note:
(1) Consisted primarily of rental income and government grants.

Net Trading Gains

Since January 1, 2018, our net trading gains consisted primarily of interest income and disposal gains of financial assets at fair value through profit or loss, exchange gains, and gains and losses from precious metals business. Our net trading gains decreased by 7.3% from RMB1,223.0 million for the year ended December 31, 2018 to RMB1,133.3 million for the year ended December 31, 2019, primarily due to the decrease in changes in the fair value of debt securities and fund investments we invested. The following table sets forth other components of our net trading gains for the years indicated.

	For the years ended December 31,	
	2018	2019
	(in millions of RMB)	
Net (losses)/gains on financial assets held for trading	1,158.5	1,045.7
Exchange gains	64.1	86.7
Gains on precious metal	0.4	0.9
Total	**1,223.0**	**1,133.3**

Net Gains on Financial Investments

Net gains on financial investments consist primarily of interest income, dividend income from financial asset investments and gains from sale of debt instruments. Our net gains on financial investments increased significantly from RMB82.0 million for the year ended December 31, 2018 to RMB462.9 million for the year ended December 31, 2019, primarily attributable to the increase in spread income from selling debt securities by us as a result of yields of debt securities market decreasing in 2019. The following table sets forth the components of net gains on financial investment.

	For the years ended December 31,	
	2018	2019
	(in millions of RMB)	
Net (losses)/gains on debt instrument investments at fair value through other comprehensive income	(136.3)	278.1
Net gains on other financial assets at fair value through profit or loss	185.1	141.3
Dividend income from equity instruments	33.2	43.5
Total	**82.0**	**462.9**

Other Operating Incomes

Other operating incomes mainly include gains from sale of fixed assets and rental income. In 2018 and 2019, other operating incomes were RMB200.6 million and RMB343.0 million, respectively. The following table sets forth the principal components of our other operating incomes for the years indicated.

	For the years ended December 31,	
	2018	2019
	(in millions of RMB)	
Gains from sale of fixed assets(1)	148.1	296.4
Rental income	31.6	33.9
Government grants	16.5	9.1
Others	4.4	3.6
Total	**200.6**	**343.0**

Note:

(1) Consisted primarily of our disposal of certain properties with relatively long useful lives, low net values and low values in use.

Operating Expenses

The following table sets forth the principal components of our total operating expenses for the periods indicated.

	For the years ended December 31,			
	2018	**% of total**	**2019**	**% of total**
	(in millions of RMB)			
Staff expense	2,043.5	67.0%	2,402.2	67.9%
Tax and surcharges	118.0	3.9%	134.3	3.8%
Office and administrative expenses	518.2	17.0%	615.5	17.4%
Depreciation and amortization	355.2	11.6%	320.2	9.1%
Auditors' remuneration	2.7	0.1%	3.6	0.1%
Other	11.7	0.4%	60.0	1.7%
Total operating expenses	**3,049.3**	**100.0%**	**3,535.8**	**100.0%**

Our operating expenses increased by 16.0% from RMB3,049.3 million for the year ended December 31, 2018 to RMB3,535.8 million for the year ended December 31, 2019, primarily attributable to an increase in staff expenses. Our cost-to-income ratio (excluding tax expenses and surcharges) was 29.98% and 28.84% for the years ended December 31, 2018 and 2019, respectively. The decrease in our cost-to-income ratio was primarily due to our active cost control measures.

Staff Expenses

Staff expenses were the largest component of our operating expenses, representing 67.0% and 67.9% of our total operating expenses for the years ended December 31, 2018 and 2019, respectively.

The following table sets forth the components of our staff costs for the periods indicated.

	For the years ended December 31,			
	2018	**% of total**	**2019**	**% of total**
	(in millions of RMB)			
Salaries, bonuses, allowances and subsidies	1,520.5	74.4%	1,753.0	73.0%
Social security and benefits	342.2	16.7%	434.2	18.0%
Enterprise annuity scheme	115.4	5.6%	139.0	5.8%
Labor union fees and employee education expenses	65.4	3.3%	76.0	3.2%
Total staff costs	**2,043.5**	**100.0%**	**2,402.2**	**100.0%**

Staff expenses increased by 17.6% from RMB2,043.5 million for the year ended December 31, 2018 to RMB2,402.2 million for the year ended December 31, 2019, primarily due to growth of the size of our work force and salary level.

Salaries, bonuses, allowances and subsidies are the largest component of our staff expenses, representing 74.4% and 73.0% of our total staff costs for the years ended December 31, 2018 and 2019, respectively. Salaries, bonuses, allowances and subsidies increased by 15.3% from RMB1,520.5 million for the year ended December 31, 2018 to RMB1,753.0 million for the year ended December 31, 2019, primarily due to growth of the size of our work force and salary level.

Depreciation and Amortization

Depreciation and amortization was mainly associated with depreciation of our property and equipment, and amortization of software, right-to-use assets, investment properties and long-term deferred expenses. Depreciation and amortization represented 11.6% and 9.1% of our total operating expenses for the years ended December 31, 2018 and 2019, respectively. Depreciation and amortization decreased by 9.9% from RMB355.2 million for the year ended December 31, 2018 to RMB320.2 million for the year ended December 31, 2019, primarily due to disposal of certain fully depreciated assets.

Tax and Surcharges

Tax and surcharges increased by 13.8% from RMB118.0 million for the year ended December 31, 2018 to RMB134.3 million for the year ended December 31, 2019, primarily due to an increase in our operating income subject to value-added taxes and the development and expansion of our business.

Office and Administrative Expenses

Office and administrative expenses represented 17.0% and 17.4% of our total operating expenses for the years ended December 31, 2018 and 2019, respectively. Office and administrative expenses consisted primarily of business marketing expenses, electronic equipment operating costs, security expenses and insurance premiums. Office and administrative expenses increased by 18.8% from RMB518.2 million for the year ended December 31, 2018 to RMB615.5 million for the year ended December 31, 2019, primarily due to an increase of advertising and business promotion costs and an increase of electronic equipment management costs as a result of our software procurement and equipment maintenance.

Expected Credit Losses and Asset Losses

Expected credit loss is weighted average credit losses with the probability of default as the weight, primarily including expected credit loss in our loans and advances to customers, financial investments, guarantees, financial assets held under resale agreements and deposits and placement with banks and other financial institutions. Our expected credit loss increased by 51.0% from RMB1,717.1 million for the year ended December 31, 2018 to RMB2,593.5 million for the year ended December 31, 2019, primarily due to the increase in allowance for expected credit loss to enhance our risk resistibility in view of increase in loans and advances to customers and increase in credit risk in debt securities market.

The following table sets forth the components of our expected credit losses and asset losses for the periods indicated.

	For the years ended December 31,	
	2018	2019
	(in millions of RMB)	
Financial investments	623.0	1,709.6
Loans and advances to customers	1,068.4	790.3
Credit commitments	(1.0)	6.7
Financial assets held under resale agreements and deposits and placements with banks and other financial institutions	(6.1)	11.0
Others[(1)]	32.8	75.9
Total	**1,717.1**	**2,593.5**

Note:

(1) Primarily consisted of provisions for other assets.

Income Tax Expenses

The following table sets forth the reconciliation between the income tax expenses calculated at the statutory income tax rate applicable to our profit before tax and our actual income tax expenses for the periods indicated.

	For the years ended December 31,	
	2018	2019
	(in millions of RMB)	
Profit before tax	**5,034.2**	**5,700.8**
Income tax calculated at the tax rate of 25%	1,258.6	1,425.2
Impact of income not subject to tax[(1)]	(700.7)	(752.2)
Profit or loss attributable to associates	(5.8)	(8.7)
Non-deductible tax effect[(2)]	30.9	51.6
Derecognition of previously recognized deferred tax assets and others	—	114.8
Effect of preferential tax rate applicable to a subsidiary[(3)]	(2.1)	(0.1)
Income tax expense	**580.9**	**830.6**

Notes:

(1) Mainly consisted of interest income from debt securities issued by PRC governments, which is non-taxable in accordance with PRC tax regulations.

(2) Mainly consisted of expenditures in excess of limitation of tax deduction in accordance with PRC tax regulations.

(3) Referred to our controlled subsidiary, Hezhou Babu Dongying County bank, which was subject to a reduced income tax rate at 15% as it qualified in industries encouraged to develop in the western region of the PRC.

Our income tax expenses increased by 43.0% from RMB580.9 million for the year ended December 31, 2018 to RMB830.6 million for the year ended December 31, 2019, primarily due to substantial growth of our business income and profit in 2019. Our effective income tax rate was 11.5% and 14.6% for the years ended December 31, 2018 and 2019, respectively.

The following table sets forth, for the periods indicated, the components of our income tax expenses.

	For the years ended December 31,	
	2018	2019
	(in millions of RMB)	
Current income tax	685.7	1,188.6
Deferred income tax	(104.8)	(358.0)
Total income tax expenses	**580.9**	**830.6**

Net Profit

Primarily as a result of all the foregoing factors, our net profit increased by 9.4% from RMB4,453.3 million for the year ended December 31, 2018 to RMB4,870.2 million for the year ended December 31, 2019.

Other Comprehensive Income/(Losses)

	For the years ended December 31,	
	2018	2019
	(in millions of RMB)	
Items which may be reclassified to profit or loss		
Changes in fair value of financial assets at fair value through other comprehensive income	1,654.9	(865.1)
Credit impairment provision for financial assets at fair value through other comprehensive income	612.1	1,731.0
Impact on income tax on changes in fair value and credit impairment provision of financial assets at fair value through other comprehensive income	(566.8)	(216.4)
Items will not be reclassified to profit or loss		
Changes in fair value of equity instruments designated at fair value through other comprehensive income	(3.8)	10.6
Impact on income tax on changes in fair value of equity instruments designated at fair value through other comprehensive income	1.0	(2.6)
Other Comprehensive Income/(Losses)	**1,697.4**	**657.5**

Our financial assets measured at fair value through other comprehensive income primarily consist of re-discounted bills, debt securities, rights to earnings on credit assets, wealth management products for direct financing and unlisted equity investments. We recorded a gain from changes in fair value of financial assets at fair value through other comprehensive income at the amount of RMB1,654.9 million in 2018 and a loss from changes in fair value of financial assets at fair value through other comprehensive income at the amount of RMB856.1 million in 2019. Such change was primarily resulted from the increased credit risk in relation to some of our debt securities in 2019, which led to the decrease in fair value of such debt securities. We incurred impairment losses of RMB612.1 million and RMB1,731.0 million on such financial assets in 2018 and 2019, respectively, in accordance with the expected credit loss model under IFRS 9. The significant increase in such impairment loss in 2019 was mainly due to the increased credit risk in debt securities market in 2019, and we increased our credit impairment provisions accordingly to enhance our capability to reflect the associated risks for 2019.

SUMMARY OF SEGMENT OPERATING RESULTS

We have three principal business activities: corporate banking business, retail banking business and treasury business. Please see "Business — Our Principal Businesses". The following table sets forth, for the periods indicated, our operating results for each of our principal business segments.

	For the years ended December 31,														
	2018					2019					2020				
	Corporate banking business	Retail banking business	Treasury business	Others(1)	Total	Corporate banking business	Retail banking business	Treasury business	Others(1)	Total	Corporate banking business	Retail banking business	Treasury business	Others(1)	Total
	(in millions of RMB)														
External interest income(2)	6,043.4	2,069.2	8,002.1	—	16,114.7	6,832.5	2,917.4	7,603.2	—	17,353.1	8,269.2	4,523.1	6,725.3	—	19,517.6
External interest expense(2)	(2,002.2)	(2,619.6)	(4,172.5)	—	(8,794.3)	(2,426.0)	(2,753.1)	(3,372.8)	—	(8,551.9)	(3,028.9)	(3,406.2)	(3,150.1)	—	(9,585.2)
Net inter-segment interest income/ (expense)(3)	(147.9)	3,765.9	(3,618.0)	—	—	123.8	3,442.8	(3,566.6)	—	—	40.7	3,358.7	(3,399.4)	—	(0.0)
Net interest income	**3,893.3**	**3,215.5**	**211.6**	**—**	**7,320.4**	**4,530.3**	**3,607.1**	**663.8**	**—**	**8,801.2**	**5,281.0**	**4,475.6**	**175.8**	**—**	**9,932.4**
Net fee and commission income	**101.4**	**794.6**	**37.4**	**18.2**	**951.6**	**65.3**	**910.5**	**69.9**	**9.1**	**1,054.8**	**138.4**	**764.9**	**22.0**	**15.1**	**940.4**
Net trading gains/ (losses)	51.5	2.7	1,168.8	—	1,223.0	76.2	6.3	1,050.8	—	1,133.3	81.6	45.6	754.1	—	881.3
Net gains/(losses) arising from Financial investments	—	—	48.8	33.2	82.0	—	—	419.4	43.5	462.9	—	—	433.9	(252.0)	181.9
Other operating income	—	—	1.1	199.5	200.6	—	—	0.8	342.2	343.0	—	—	—	111.0	111.0
Operating income	**4,046.2**	**4,012.8**	**1,467.7**	**250.9**	**9,777.6**	**4,671.8**	**4,523.9**	**2,204.7**	**394.8**	**11,795.2**	**5,501.0**	**5,286.1**	**1,385.8**	**(125.9)**	**12,047.0**
Operating expenses	(792.9)	(1,635.0)	(384.3)	(237.1)	(3,049.3)	(956.2)	(1,935.8)	(518.5)	(125.3)	(3,535.8)	(1,263.5)	(2,215.8)	(392.9)	(52.7)	(3,924.9)
Depreciation and amortization	(86.6)	(196.8)	(67.9)	(3.9)	(355.2)	(81.3)	(177.3)	(58.4)	(3.2)	(320.2)	(135.5)	(172.7)	(40.3)	(2.6)	(351.1)
Expected credit loss and asset losses	(1,073.3)	(26.9)	(616.9)	—	(1,717.1)	(455.4)	(334.9)	(1,803.2)	—	(2,593.5)	(195.7)	(128.6)	(151.8)	(2,298.2)	(2,774.3)
Share of profit of associates	—	—	—	23.0	23.0	—	—	—	34.9	34.9	(0.0)	(0.0)	0.1	24.2	24.3
Profit before tax	**2,180.0**	**2,350.9**	**466.5**	**36.8**	**5,034.2**	**3,260.2**	**2,253.2**	**(117.0)**	**304.4**	**5,700.8**	**4,041.8**	**2,941.7**	**841.2**	**(2,452.6)**	**5,372.1**

	For the three months ended March 31,									
	2020					2021				
	Corporate banking business	Retail banking business	Treasury business	Others(1)	Total	Corporate banking business	Retail banking business	Treasury business	Others(1)	Total
External interest income(2)	2,008.5	1,082.5	1,666.6	—	4,757.6	2,445.0	1,223.4	1,635.9	—	5,304.3
External interest expense(2)	(693.4)	(747.4)	(789.6)	—	(2,230.4)	(885.1)	(911.8)	(927.1)	—	(2,724.0)
Net inter-segment interest income/ (expense)(3)	17.0	787.5	(804.5)	—	—	(66.0)	811.0	(745.0)	—	—
Net interest income	**1,332.1**	**1,122.6**	**72.5**	**—**	**2,527.2**	**1,493.9**	**1,122.6**	**(36.2)**	**—**	**2,580.3**
Net fee and commission income	**28.9**	**151.1**	**11.1**	**1.2**	**192.3**	**31.9**	**147.6**	**3.7**	**10.2**	**193.4**
Net trading gains/ (losses)	19.0	7.7	334.6	—	361.3	34.2	16.9	257.1	—	308.2
Net gains/(losses) arising from Financial investments	—	—	57.6	—	57.6	—	—	66.8	(9.3)	57.5
Other operating income	—	—	—	34.7	34.7	—	0.1	—	16.5	16.6
Operating income	**1,380.0**	**1,281.4**	**475.8**	**35.9**	**3,173.1**	**1,560.0**	**1,287.2**	**291.4**	**17.4**	**3,156.0**
Operating expenses	(363.4)	(549.3)	(81.2)	(14.4)	(1,008.3)	(363.3)	(421.0)	(95.2)	(19.5)	(899.0)
Depreciation and amortization	(68.9)	(31.7)	(7.6)	(0.7)	(108.9)	(54.0)	(54.5)	(15.3)	(0.8)	(124.6)
Expected credit loss and asset losses	(189.5)	(97.0)	(150.7)	—	(437.2)	(26.3)	(100.4)	(145.9)	—	(272.6)
Share of profit of associates	—	—	—	6.3	6.3	—	—	—	15.7	15.7
Profit before tax	**827.1**	**635.1**	**243.9**	**27.8**	**1,733.9**	**1,170.4**	**765.8**	**50.3**	**13.6**	**2,000.1**

Notes:

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

(2) Consisted of net interest income from external clients or activities.

(3) Consisted of net interest income/(expense) attributable to transactions with other segments.

The following table sets forth, for the periods indicated, the operating income of each of our principal business segments.

	For the years ended December 31,						For the three months ended March 31,			
	2018		2019		2020		2020		2021	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)									
Corporate banking business	4,046.2	41.4%	4,671.8	39.6%	5,501.0	45.7%	1,380.0	43.5%	1,560.0	49.4%
Retail banking business	4,012.8	41.0%	4,523.9	38.4%	5,286.1	43.9%	1,281.4	40.4%	1,287.2	40.8%
Treasury business	1,467.7	15.0%	2,204.7	18.7%	1,385.8	11.5%	475.8	15.0%	291.4	9.2%
Others[1]	250.9	2.6%	394.8	3.3%	(125.9)	(1.1)%	35.9	1.1%	17.4	0.6%
Total	**9,777.6**	**100.0%**	**11,795.2**	**100.0%**	**12,047.0**	**100.0%**	**3,173.1**	**100.0%**	**3,156.0**	**100.0%**

Note:

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

The operating income of corporate banking represented 41.4%, 39.6%, 45.7%, 43.5% and 49.4% of our total operating income for the years ended December 31, 2018, 2019 and 2020 and for the three months ended March 31, 2020 and 2021, respectively. Operating income from our corporate banking business increased by 15.5% from RMB4,046.2 million for the year ended December 31, 2018 to RMB4,671.8 million for the year ended December 31, 2019, primarily due to our focused development of corporate loan business which resulted in the increase of a net interest income from our corporate banking business. Operating income from our corporate banking business increased by 17.7% from RMB4,671.8 million for the year ended December 31, 2019 to RMB5,501.0 million for the year ended December 31, 2020, primarily due to growth in corporate business scale. For the same reason, the operating income from our corporate banking business increased by 13.0% from RMB1,380.0 million for the three months ended March 31, 2020 to RMB1,560.0 million for the three months ended March 31, 2021.

Operating income from our retail banking business represented 41.0%, 38.4%, 43.9%, 40.4% and 40.8% of our total operating income for the years ended December 31, 2018, 2019 and 2020 and for the three months ended March 31, 2020 and 2021, respectively. Operating income from our retail banking business increased by 12.7% from RMB4,012.8 million for the year ended December 31, 2018 to RMB4,523.9 million for the year ended December 31, 2019, primarily due to our efforts to innovate and develop our retail loan business, which resulted in the increase in the net interest income from our retail banking business. Operating income from our retail banking business increased by 16.8% from RMB4,523.9 million for the year ended December 31, 2019 to RMB5,286.1 million for the year ended December 31, 2020, primarily due to our efforts to innovate and develop our retail loan business, which resulted in the increase in the net interest income from our retail banking business. For the same reason, the operating income from our retail banking business slightly increased by 0.5% from RMB1,281.4 million for the three months ended March 31, 2020 to RMB1,287.2 million for the three months ended March 31, 2021.

Operating income from our treasury business represented 15.0%, 18.7%, 11.5%, 15.0% and 9.2% of our total operating income for the years ended December 31, 2018, 2019 and 2020 and for the three months ended March 31, 2020 and 2021, respectively. Operating income from our treasury business increased by 50.2% from RMB1,467.7 million for the year ended December 31, 2018 to RMB2,204.7 million for the year ended December 31, 2019, primarily due to the decrease in the cost of interbank liabilities, which was in turn a result of the decrease in the prevailing market interest rate. Operating income from our treasury business decreased by 37.1% from RMB2,204.7 million for the year ended December 31, 2019 to RMB1,385.8 million for the year ended December 31, 2020, primarily due to (i) the decrease of the average balance of rediscounted bills, resulting in the decrease in the interest income from rediscounted bills; (ii) the reduction in credit securities by the Bank to prevent and control credit risk effectively, resulting in the decrease of certain interest income from credit securities. Operating income from our treasury business decreased by 38.8% from RMB475.8 million for the three months ended March 31, 2020 to RMB291.4 million for the three months ended March 31, 2021, mainly due to the decrease in our credit debt securities in line with our prudent risk management policy.

Operating income from our other business segments represented 2.6%, 3.3%, 1.1% and 0.6% of our total operating income for the years ended December 31, 2018 and 2019 and for the three months ended March 31, 2020 and 2021, respectively, and we incurred loss which represented 1.1% of our total operating income for the year ended December 31, 2020. Operating income from our other business segments increased by 57.4% from RMB250.9 million for the year ended December 31, 2018 to RMB394.8 million for the year ended December 31, 2019, mainly due to the increase in gain on disposal of fixed assets. We recorded a loss from our other business segments amounted to RMB125.9 million for the year ended December 31, 2020, mainly due to the loss due to the decreased in the fair value of financial assets we invested. Operating income from our other business segments decreased by 51.5% from RMB35.9 million for the three months ended March 31, 2020 to RMB17.4 million for the three months ended March 31, 2021, mainly due to the decrease in yield for disposal of long-term assets.

CASH FLOWS

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

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

Cash Flows Generated from/(Used in) Operating Activities

We had a net cash outflow from operating activities of RMB17,981.4 million for the three months ended March 31, 2020. The cash inflow was primarily due to: (i) RMB4,375.8 million net increase of deposits from customers, (ii) RMB1,669.6 million net increase of borrowings from the central banks, (iii) RMB2,836.6 million net decrease in balances with central banks, (iv) RMB2,059.8 million net decrease of financial assets held under resale agreement and deposits and placements with banks and other financial institutions and (v) RMB828.9 million cash inflow generated from profit, which can be reconciled with profit before tax of RMB1,733.9 million after adjustments of non-cash items that mainly included (a) negative adjustment of RMB1,511.4 million of interest income from financial investments, (b) positive adjustment of RMB506.8 million of interest expense on debt securities issued and (c) positive adjustment of RMB437.2 million of expected credit losses and asset losses. The cash inflow was partially offset by cash outflow, which primarily consisted of (i) RMB12,091.8 million of loans and advances to customers; and (ii) RMB17,385.1 million of decrease in financial assets sold under repurchase agreements and deposits and placements from banks and other financial institutions.

We had a net cash outflow from operating activities of RMB2,300.9 million for the three months ended March 31, 2021. The cash inflow was primarily due to: (i) RMB12,092.4 million net increase of deposits from customers, (ii) RMB2,108.6 million increase of financial assets sold under repurchase agreements and deposits and placements from banks and other financial institutions and (iii) RMB830.2 million cash inflow generated from profit, which can be reconciled with profit before tax of RMB2,000.1 million after adjustments of non-cash items that mainly included (a) negative adjustment of RMB1,596.0 million of interest income from financial investments, (b) positive adjustment of RMB411.1 million of interest expense on debt securities issued and (c) positive adjustment of RMB272.6 million of expected credit losses and asset losses. The cash inflow was partially offset by cash outflow, which primarily consisted of (i) RMB14,164.8 million of loans and advances to customers; and (ii) RMB1,184.1 million of net increase in balances with central banks.

We had a net cash inflow from operating activities of RMB20,314.3 million for the year ended December 31, 2020. The cash inflow was primarily due to: (i) RMB33,674.0 million net increase of deposits from customers, (ii) RMB9,018.5 million net decrease of financial assets held under resale agreement and deposits and placements with banks and other financial institutions, (iii) RMB3,003.4 million net decrease in balances with the central bank and (iv) RMB3,151.2 million cash inflow generated from profit, which can be reconciled with profit before tax of RMB5,372.1 million after adjustments of non-cash items that mainly included (a) positive adjustment of RMB2,774.3 million of expected credit losses and asset losses, (b) positive adjustment of RMB1,778.2 million of interest expense on debt securities issued; (c) negative adjustment of RMB5,980.8 million of interest income from financial investments; and (d) negative adjustment of RMB881.3 million of net trading gain. The cash inflow was partially offset by cash outflow, which primarily consisted of (i) RMB52,354.6 million of loans and advances to customers; and (ii) RMB3,598.8 million of net decrease in financial assets sold under repurchase agreements and deposits and placements from banks and other financial institutions.

We had a net cash outflow from operating activities of RMB6,997.6 million for the year ended December 31, 2019. The cash outflow was primarily due to: (i) RMB31,114.2 million net increase of loans and advances to customers, (ii) RMB3,751.0 million net increase of financial assets held under resale agreement and deposits and placements with banks and other financial institutions, (iii) RMB6,865.3 million net decrease of financial assets sold under repurchase agreement and deposit and placement from banks and other financial intuitions and (iv) RMB1,018.8 million of income tax paid. The cash outflow was partially offset by cash inflow, which primarily consisted of (i) RMB27,334.8 million net increase of deposits from customers, (ii) RMB4,221.0 million net decrease of balances with the central banks, (iii) RMB1,956.7 million net increase of borrowings from the central banks and (iv) RMB2,346.2 million cash inflow generated from profit, which can be reconciled with profit before tax of RMB5,700.8 million after adjustments of non-cash items that mainly included (a) positive adjustment of RMB2,593.5 million from expected credit losses, (b) positive adjustment of RMB1,891.2 million of interest expense on debt securities issued, (c) negative adjustment of RMB6,256.6 million of interest income from financial investments and (d) negative adjustment of RMB1,133.3 million of net trading gain.

We had a net cash inflow from operating activities of RMB6,224.7 million for the year ended December 31, 2018. The cash inflow was primarily due to (i) RMB21,126.3 million net increase of deposits from customers, (ii) RMB11,953.4 million net decrease of financial assets held under resale agreement and deposits and placements with banks and other financial institutions, (iii) RMB3,472.9 million net decrease in balances with the central bank and (iv) RMB1,119.1 million cash inflow generated from profit, which can be reconciled with profit before tax of RMB5,034.2 million after adjustments of non-cash items that mainly included (a) positive adjustment of RMB1,717.1 million of expected credit losses, (b) positive adjustment of RMB1,990.5 million of interest expense on debt securities issued (c) negative adjustment of RMB6,523.4 million of interest income from financial investments and (d) negative adjustment of RMB1,223.0 million of net trading gain. The cash inflow was partially offset by cash outflow, which primarily consisted of (i) RMB19,341.2 million from loans and advances to customers and (ii) RMB12,116.1 million of net decrease in financial assets sold under repurchase agreements and deposits and placements from banks and other financial intuitions.

Net Cash From/ (Used in) Investing Activities

We recorded RMB4,031.4 million net cash outflow from investment activities for the three months ended March 31, 2021, which was primarily due to (i) RMB63,722.6 million cash paid to acquire financial investments, partially offset by (ii) RMB59,779.3 million cash received from disposal of financial investments.

We recorded RMB5,542.8 million net cash inflow from investment activities for the three months ended March 31, 2020, which was primarily due to (i) RMB46,356.5 million of cash received from disposal of financial investments, partially offset by (iii) RMB40,770.8 million cash paid to acquire financial investments.

We recorded RMB2,702.7 million net cash outflow from investment activities for the year ended December 31, 2020, which was primarily due to (i) RMB223,919.2 million cash paid to acquire financial investments, partially offset by (ii) RMB214,106.9 million cash received from disposal of financial investments and (iii) RMB7,435.3 million of cash received from investment in Chaoyang RCB.

We recorded RMB7,598.9 million net cash inflows from investment activities for the year ended December 31, 2019, which was primarily due to (i) RMB211,958.4 million of cash received from disposal of financial investments and (ii) RMB4,560.3 million of cash received from investment in Zhanjiang RCB, partially offset by (iii) RMB209,137.1 million cash paid to acquire financial investments.

We recorded RMB14,891.2 million net cash outflows from investment activities for the year ended December 31, 2018, which was primarily due to (i) RMB266,965.7 million cash paid to acquire financial investments and (ii) RMB1,178.0 million of cash paid for investment in Zhanjiang RCB, partially offset by (iii) RMB253,344.6 million cash received from disposal of financial investments.

Net Cash Generated from Financing Activities

We recorded RMB8,379.3 million and RMB4,067.2 million cash inflow from financing activities for the three months ended March 31, 2020 and 2021, respectively, which was primarily due to (i) cash repayments for debt securities issued of RMB29,870.0 million and RMB20,440.2 million, respectively, partially offset by (ii) cash received for debt securities issued of RMB38,294.9 million and RMB24,560.7 million, respectively, for the same periods.

We recorded RMB11,498.1 million cash outflow from financing activities for the year ended December 31, 2020, which was primarily due to (i) RMB118,939.9 million cash repayments for debt securities issued and (ii) RMB1,554.6 million cash payments for distribution of dividends, partially offset by (iii) RMB109,139.3 million cash received for debt securities issued.

We recorded RMB801.6 million cash outflow from financing activities for the year ended December 31, 2019, which was primarily due to (i) RMB87,114.2 million cash repayments for debt securities issued and (ii) RMB1,371.4 million cash payments for distribution of dividends, partially offset by (iii) RMB87,817.9 million cash received for debt securities issued.

We recorded RMB16,050.3 million cash inflow from financing activities for the year ended December 31, 2018, which was primarily due to (i) RMB102,640.0 million cash received for debt securities issued, partially offset by (ii) RMB85,140.9 million cash repayments for debt securities issued and (iii) RMB1,326.9 million cash payments for distribution of dividends.

LIQUIDITY

We fund our loans and investment portfolios principally through our customer deposits. Although a majority of our deposits from customers have been short-term deposits, customer deposits have been, and we believe will continue to be, a stable source of our funding. Customer deposits with remaining maturities of less than one year represented 82.6%, 79.0%, 79.9% and 79.0% of total deposits from customers for the years ended December 31, 2018, 2019 and 2020 and for the three months ended March 31, 2021, respectively. For additional information about our short-term liabilities and sources of funds, please see "Assets and Liabilities — Liabilities and Sources of Funds" and "Supervision and Regulation — Other Operational and Risk Management Ratios".

We manage liquidity by monitoring the maturities of our assets and liabilities in an effort to ensure that we have sufficient funds to meet obligations as they become due. Based on our experience, a majority of the maturing deposits will be rolled over. We also maintain certain amount of cash and surplus deposit reserve, as well as certain financing ability on the interbank market to meet any unexpected liquidity requirements. Please see "Risk Management — Liquidity Risk Management".

The following table sets forth, as of March 31, 2021, the remaining maturities of our assets and liabilities.

	As of March 31, 2021							
	Current	**Within 1 month**	**Between 1 and 3 months**	**Between 3 and 12 months**	**Between 1 and 5 years**	**More than 5 years**	**Indefinite**	**Total**
				in millions of RMB				
Assets								
Cash and deposits with central banks	8,553.6	—	—	—	—	—	28,402.3	36,955.9
Financial assets held under resale agreements and deposits and placements with banks and other financial institutions	9,384.4	8,586.5	637.0	731.0	—	—	—	19,338.9
Loans and advances to customers	2,671.3	10,083.2	19,877.6	66,912.8	78,459.4	90,685.6	—	268,689.9
Financial investments	374.2	4,975.0	11,886.0	35,546.5	112,431.0	42,830.9	22,963.0	231,006.6
Other financial assets	243.4	1.5	4.6	6.4	0.3	—	11.0	267.2
Total financial assets	**21,226.9**	**23,646.2**	**32,405.2**	**103,196.7**	**190,890.7**	**133,516.5**	**51,376.3**	**556,258.5**
Financial liabilities								
Borrowings from central banks	—	2,419.0	2,978.7	24,472.9	—	—	—	29,870.6
Financial assets sold under repurchase agreements and deposits and placements from banks and other financial institutions	1,848.4	26,754.2	6,822.5	10,165.7	—	—	—	45,590.8
Financial liabilities at fair value through profit or loss	—	—	—	211.1	—	—	19.1	230.2
Deposits from customers	189,045.7	22,876.8	21,286.7	74,516.4	81,915.7	—	—	389,641.3

	As of March 31, 2021							
	Current	**Within 1 month**	**Between 1 and 3 months**	**Between 3 and 12 months**	**Between 1 and 5 years**	**More than 5 years**	**Indefinite**	**Total**
	in millions of RMB							
Debt securities issued	—	2,953.1	13,955.6	26,350.6	7,526.1	3,995.5	—	54,780.9
Lease liabilities	—	10.9	21.3	82.5	245.2	73.2	—	433.1
Other financial liabilities	89.5	9.5	19.0	85.5	—	—	—	203.5
Total financial liabilities	**190,983.6**	**55,023.5**	**45,083.8**	**135,884.7**	**89,687.0**	**4,068.7**	**19.1**	**520,750.4**
Net position	(169,756.7)	(31,377.3)	(12,678.6)	(32,688.0)	101,203.7	129,447.8	51,357.2	35,508.1

We have been closely monitoring the maturity profile of our assets and liabilities while actively monitoring various liquidity indicators. As of March 31, 2021, our Bank's primary liquidity risk indicators, such as the liquidity ratio, core liability ratio and liquidity gap ratio, had all complied with the regulatory requirements. For details of our liquidity indicators, please see "Supervision and Regulation — Other Operational and Risk Management Ratios".

Although based on our experience, a majority of the maturing liabilities businesses, including maturing deposits, will be rolled over and continue to remain with us, we have still paid high attention to the negative net position for time bands from "current" to "between 1 and 3 months", and have actively taken various measures to ensure that we have sufficient funds to meet obligations as the liabilities become due. For example, (1) to enhance the stability of demand deposits by converting demand deposits to deposits of longer term narrow the gap of insufficient demand deposits; (2) to maintain sufficient cash and over-provision of reserve according to normal operation requirement; (3) to further explore financing channels and to maintain long term stable relationship with business partners; re-financing and re-factoring will be used to secure funds from the central bank so as to maintain a reasonable structure of liabilities; (4) further improvement of the reserve of liquidity by exploring financing resources. Our Bank will increase its holding in highly liquid assets of national treasury bonds, government policy bonds and bonds issued by local governments to improve its liquidity. For details of our liquidity risk management measures, please see "Risk Management — Liquidity Risk Management".

CAPITAL RESOURCES

Equity

The following table sets forth, for the years indicated, the components of the changes in our total equity attributable to shareholders and non-controlling interests.

	(in millions of RMB)
Share capital	5,740.5
Revaluation reserve	573.2
Surplus reserve	6,204.0
General reserve	5,017.8
Undistributed profit	12,053.1
Non controlling interests	246.0
As of December 31, 2018	**29,834.6**
Share capital	5,740.5
Revaluation reserve	1,229.5
Surplus reserve	6,705.0
General reserve	5,284.1
Undistributed profit	14,855.3
Non controlling interests	1,657.4
As of December 31, 2019	**35,471.8**
Share capital	5,740.5
Revaluation reserve	196.3
Surplus reserve	7,177.6
General reserve	5,767.7
Undistributed profit	17,263.6
Non controlling interests	2,497.2
As of December 31, 2020	**38,642.9**
Share capital	5,740.5
Revaluation reserve	100.0
Surplus reserve	7,177.6
General reserve	5,767.7
Undistributed profit	18,975.5
Non controlling interests	2,555.6
As of March 31, 2021	**40,316.9**

Debt

Debt Securities Issued

Our Bank issued 10-year fixed-rate tier-two capital bonds with a total amount of RMB4,000 million in June 2017 at a coupon rate of 5.00% per annum, and the bonds pay interest annually. With the approval of the regulators, when in compliance with regulatory capital requirements or an equivalent or higher quality capital instrument is available to replace the bonds, our Bank has the option to redeem part or all of the bonds at par value on June 12, 2022. If our Bank does not exercise its right of redemption, the coupon rate will remain at 5% per annum on and after June 12, 2022. Such bonds have the write-down feature of tier-two capital instruments, which allows our Bank to write down the entire principal of the bonds and not to pay any accumulated unpaid interests when a regulatory triggering events as stipulated in the offering documents occurs. Such regulatory triggering events include where (i) CBRC believes that the issuer will not be financially sustainable without write-down; and (ii) the relevant authorities believe that the issuer will not be financially sustainable without capital injection from the public sector or furnishing support with equal effects. Based on relevant provisions of CBIRC, such tier-two capital bonds meet the criteria of a qualified tier-two capital instrument.

With the approvals of PBoC and CBIRC Guangdong Office, our Bank issued 3-year green financial bonds with a total amount of RMB2,000 million in January 2019 at a coupon rate of 3.50% per annum, and the bonds pay interest annually. In December 2020, our Bank issued another series of green financial bonds of an aggregate principal amount of RMB1.0 billion for term of three years with coupon rate of 3.75%, payable annually. Such green financial bonds may not be redeemed or put back prematurely.

Our Bank issued with the approvals of PBoC and CBIRC Guangdong Office, Sannong financial bonds in September 2020 of an aggregate amount of RMB2.0 billion for a term of three years with coupon rate of 3.62% payable annually.

Our Bank issued, with the approvals of PBoC and CBIRC Guangdong Office, SME financial bonds in March 2020 of an aggregate principal amount of RMB2.0 billion for a term of three years with coupon rate of 2.94%, payable annually. In March 2021, our Bank issued two series of SME financial bonds with aggregate principal amounts of RMB2.0 billion and RMB1.0 billion and coupon rates of 3.58% and 3.52% payable annually, respectively, and both with a term of three years.

Certificates of Interbank Deposit

We issued a number of certificates of interbank deposit in the aggregate amount of RMB51,571.4 million, RMB52,101.6 million and RMB39,293.9 million as of December 31, 2018, 2019 and 2020, respectively. The interest rates were in the range of 2.7%—5.1%, 2.8%—4.1%, 1.8%—3.4% and 1.9%—3.4% per annum for the years ended December 31, 2018, 2019 and 2020 and for the three months ended March 31, 2021, respectively.

Capital Adequacy

We are subject to capital adequacy requirements as promulgated by CBIRC. We shall maintain our capital adequacy ratio above the minimum level required by CBIRC during the transitional period.

The following table sets forth, as of the dates indicated, certain information relating to our capital adequacy ratio, calculated in accordance with the Capital Administrative Measures and PRC GAAP.

	As of December 31,			As of March 31,
	2018	2019	2020	2021
	(in millions of RMB, except percentages)			
Core tier-one capital	29,836.6	34,326.7	37,017.9	38,718.6
Share capital	5,740.5	5,740.5	5,740.5	5,740.5
Surplus reserve	6,204.0	6,705.0	7,177.6	7,177.6
General reserve	5,043.1	5,284.1	5,767.7	5,767.7
Other comprehensive income	72.9	1,229.5	196.3	100.0
Undistributed profits	12,674.8	14,855.3	17,263.6	18,975.4
Qualified portion of non-controlling interest's capital	101.5	512.3	872.3	957.4
Total core tier-one capital	29,836.6	34,326.7	37,017.9	38,718.6
Net core tier-one capital	29,824.6	34,321.2	36,474.7	38,164.5
Net tier-one capital	29,838.1	34,389.6	36,591.0	38,292.2
Tier-two capital	6,801.1	7,184.3	7,676.2	7,863.9
Net capital base	36,639.2	41,573.9	44,267.2	46,156.0
Total risk-weighted assets	246,896.1	271,759.7	316,197.4	331,271.1
Core tier-one capital adequacy ratio	12.08%	12.63%	11.54%	11.52%
Tier-one capital adequacy ratio	12.09%	12.65%	11.57%	11.56%
Capital adequacy ratio	14.84%	15.30%	14.00%	13.93%

We closely monitor capital adequacy ratios to ensure compliance with regulatory requirements. We may take various measures to comply with the applicable regulatory capital adequacy requirements, including (i) raising capital by issuing new shares and debt securities, (ii) increasing retained earnings by continually improving profitability, and (iii) managing the growth of our risk-weighted assets.

As of December 31, 2018, 2019 and 2020 and March 31, 2021, our core tier-one capital adequacy ratio was 12.08%, 12.63%, 11.54% and 11.52%, respectively, and our capital adequacy ratio was 14.84%, 15.30%, 14.00% and 13.93%, respectively, which were all in compliance with the CBIRC requirements.

OFF-BALANCE SHEET COMMITMENTS

Our off-balance sheet commitments consisted primarily of financial guarantees and other credit commitments and capital commitments.

Financial Guarantees and Other Credit Commitments

Our financial guarantees and other credit commitments consisted primarily of bank acceptance bills, letters of credit, guarantee, and unused limit of credit cards. The following table sets forth the contractual amounts of our financial guarantees and other credit commitments as of the dates indicated.

	As of December 31,			As of March 31,
	2018	2019	2020	2021
	(in millions of RMB)			
Bank acceptances	1,484.9	1,226.6	1,580.7	1,673.8
Letters of credit	227.9	204.5	245.2	274.1
Guarantee	375.6	630.4	1,223.0	1,207.7
Unused limit of credit cards	7,771.4	9,036.8	9,655.1	9,968.1
Total	**9,859.8**	**11,098.3**	**12,704.0**	**13,123.7**

Capital Commitments

Our capital commitments consisted of properties and equipment which have been contracted but not provided for. The following table sets forth the capital commitments as of the dates indicated:

	As of December 31,			As of March 31,
	2018	2019	2020	2021
	(in millions of RMB)			
Capital commitments of equipment contracted but not yet paid	267.4	606.8	494.8	315.0

Our total off-balance sheet commitments increased by 15.6% from RMB10,127.2 million as of December 31, 2018 to RMB11,705.1 million as of December 31, 2019, primarily due to the increase of our unused limit of credit cards. Our total off-balance sheet commitments increased by 12.8% from RMB11,705.1 million as of December 31, 2019 to RMB13,198.8 million as of December 31, 2020, primarily due to the increase in bank acceptance bill, letters of credit, letters of guarantees and unused limit of credit cards. Our total off-balance sheet commitments further increased by 1.8% to RMB13,438.7 million for the three months ended March 31, 2021, primarily due to customer consumption resumed from the COVID-19 impact, which is in line with the COVID-19 recovery policies.

TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

The following table sets forth the face value of our known contractual obligations by remaining contract maturity classified into the categories specified below as of March 31, 2021. For the remaining maturities of our assets and liabilities as of March 31, 2021, please see "— Liquidity".

	As of March 31, 2021			
	Less than 1 year	**Between 1 and 5 years**	**More than 5 years**	**Total**
	(in millions of RMB)			
On-balance sheet				
Interbank certificates of deposits	41,171.5	—	—	41,171.5
Tier-two capital bonds	—	—	3,995.7	3,995.7
Green financial bonds	1,841.9	999.5	—	2,841.4
SME financial bonds	—	4,618.7	—	4,618.7
Sannong financial bonds	—	1,918.5	—	1,918.5
Off-balance sheet				
Bank acceptance bill	1,673.8	—	—	1,673.8
Letters of credit	274.1	—	—	274.1
Letters of guarantees	850.8	332.9	24.0	1,207.7
Unused limit of credit cards	9,968.1	—	—	9,968.1
Total	55,780.2	7,869.6	**4,019.7**	**67,669.5**

RELATED PARTY TRANSACTIONS

During the Track Record Period, we entered into transactions with certain of our related parties, such as taking deposits from, extending credit facilities to and providing other banking services to, the relevant related parties. These transactions were conducted on normal commercial terms and in the ordinary course of our business. Our Directors believe that these related party transactions were carried out on an arm's-length basis and would not distort our results of operations during the Track Record Period or make such results not reflective of our future performance. Please see Note 40 to the Accountant's Report attached hereto as Appendix I to this prospectus.

QUANTITATIVE AND QUALITATIVE ANALYSIS OF MARKET RISK

Market risk is the risk of financial loss arising from changes in the value of a financial instrument as a result of changes in interest rates, foreign exchange rates, equity prices and commodity prices and other market changes that affect market risk-sensitive instruments. We are exposed to market risk primarily through the assets and liabilities on our balance sheet, as well as our off-balance sheet commitments and guarantees. The market risks to which we are primarily exposed are interest rate risk and exchange rate risk. We have imposed a set of exposure limits on our investment and trading activities in an effort to manage potential market losses within acceptable limits.

Interest Rate Risk

The primary source of our interest rate risk arises from mismatches in the maturity or repricing periods of our banking book. Maturity mismatches may cause net interest income to be affected by changes in the prevailing level of interest rates. Currently, we primarily use gap analysis and sensitivity analysis to assess our exposure to interest rate risks. In addition, different pricing bases for different assets and liabilities may also lead to interest rate risk for our assets and liabilities within the same repricing period. We manage our interest rate risk exposure primarily by adjusting the maturity profile and repricing pattern of our banking book based on our assessment of potential changes in the interest rate environment.

Repricing Gap Analysis

The following table sets forth, as of March 31, 2021, the results of our gap analysis based on the earlier of (i) the next expected repricing dates, and (ii) the final maturity dates for our assets and liabilities.

	As of March 31, 2021					
	Up to 3 months	**3 months up to 1 year**	**1 year up to 5 years**	**Over 5 years**	**Non-interest-bearing**	**Total**
	(in millions of RMB)					
Assets						
Cash and deposits with central banks	34,326.0	—	—	—	2,629.9	36,955.9
Financial assets held under resale agreements and deposits and placements with banks and other financial institutions	18,607.9	731.0	—	—	—	19,338.9
Loans and advances to customers	43,453.6	175,946.8	25,529.8	23,759.7	—	268,689.9
Financial investments	18,132.6	36,852.4	110,547.7	42,540.2	22,933.7	231,006.6
Other financial assets(1)	—	—	—	—	267.2	267.2
Total financial assets	**114,520.1**	**213,530.2**	**136,077.5**	**66,299.9**	**25,830.8**	**556,258.5**
Liabilities						
Borrowings from central bank	5,397.8	24,472.8	—	—	—	29,870.6
Financial assets sold under repurchase agreements and deposits and placements from banks and other financial institutions	35,425.1	10,165.7	—	—	—	45,590.8
Financial liabilities at fair value through profit or loss	—	—	—	—	230.2	230.2
Deposits from customers	233,044.7	74,516.4	81,865.7	—	214.5	389,641.3
Debt securities issued	16,908.7	26,350.6	7,526.1	3,995.5	—	54,780.9
Other financial liabilities(2)	32.1	82.6	245.2	73.2	203.5	636.6
Total financial liabilities	**290,808.4**	**135,588.1**	**89,637.0**	**4,068.7**	**648.2**	**520,750.4**
Repricing gap	(176,288.3)	77,942.1	46,440.5	62,231.2	25,182.6	35,508.1

Notes:

(1) Consisted primarily of interest receivable, fee and commission receivable from credit card installment plans, refundable deposits.

(2) Consisted primarily of interest payable, clearing and settlement and purchases payable.

Sensitivity Analysis

We use sensitivity analysis to measure the potential effect of changes in interest rates on our net interest income. The following table sets forth, as of the dates indicated, the results of our interest rate sensitivity analysis based on our assets and liabilities at the same date.

	As of December 31,						As of March 31,	
	2018		2019		2020		2021	
	Change in net profit	Other comprehensive income	Change in net profit	Other comprehensive income	Change in net profit	Other comprehensive income	Change in net profit	Other comprehensive income
	(in millions of RMB)							
100 basis-point increase	(391.7)	(1,132.7)	(356.9)	(1,189.0)	(419.7)	(1,927.6)	(937.7)	(2,003.9)
100 basis-point decrease	391.7	1,185.4	356.9	1,245.5	419.7	2,069.7	937.7	2,090.9

Based on our assets and liabilities as of December 31, 2020, if interest rates increase (or decrease) by 100 basis points instantaneously, our net interest income for the year following December 31, 2020 would decrease (or increase) by RMB419.7 million. If interest rates increase by 100 basis points instantaneously, our other comprehensive income for the year immediately following December 31, 2020 would decrease by RMB1,927.6 million. If interest rates decrease by 100 basis points instantaneously, our other comprehensive income for the year immediately following December 31, 2020 would increase by RMB2,069.7 million. This sensitivity analysis, which is based on a static interest rate risk profile of assets and liabilities, is used for risk management purposes only. The analysis measures only the impact of changes in the interest rates within a year, which are reflected by the repricing of our assets and liabilities within a year, on our net interest income. The analysis is based on the following assumptions: (i) all assets and liabilities that are repriced or due within three months and in more than three months but within one year, as shown in the table under "Repricing Gap Analysis", are repriced or due at the beginning of the respective periods; (ii) there is a parallel shift in the yield curve and in interest rates; and (iii) there are no other changes to the portfolio, and all positions will be retained and rolled over upon maturity. Actual changes in our net interest income resulting from increases or decreases in interest rates may differ from the results of this sensitivity analysis.

Exchange Rate Risk

Exchange rate risk mainly comes from long and short exposure of net assets in different foreign currencies. We mainly evaluate exchange rate risk by monitoring the cumulative proportion of foreign exchange exposure position and comprehensive foreign exchange settlement and sale position, and manage exchange rate risk by controlling the cumulative foreign exchange exposure position and the combination of foreign exchange settlement and sale position. The risk posed by fluctuating exchange rate is limited to our business operation and financial condition.

CAPITAL EXPENDITURES

Our capital expenditures for the years ended December 31, 2018, 2019 and 2020 and March 31, 2021 were primarily for the acquisition of properties for, and refurbishment of, our branches, purchases of self-service banking equipment and development of our information system.

Our capital expenditures include addition in property and equipment, right-of-use assets, intangible assets and other long-term assets. Our capital expenditures increased by 98.2% from RMB98.5 million in 2018 to RMB195.3 million in 2019. Our capital expenditures increased by 202.3% from RMB195.3 million in 2019 to RMB590.3 million in 2020. Our capital expenditures decreased by 44.8% from RMB235.2 million for the three months ended March 31, 2020 to RMB129.8 million for the three months ended March 31, 2021. The foregoing amounts and purposes may change depending on business conditions.

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENT

In the application of our accounting policies described in Note 3 of the Accountant's Report included in Appendix I to this prospectus, the management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Measurement of Expected Credit Loss

The following accounting estimates and judgments applied from January 1, 2018.

The measurement of the expected credit loss allowance for financial assets at amortized cost and FVOCI and for exposures arising from some loan commitments and financial guarantee contracts, is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behavior (the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in Note 42.1 Credit risk.

It requires a lot of significant judgments to measure ECL under relevant accounting standards, such as:

- Segmentation of business operations sharing similar credit risk characteristics, selection of appropriate models and determination of relevant key parameters;
- Criteria for determining a significant increase in credit risk, default and credit impairments;
- The use of economic scenario, economic indicator and weight for forward-looking measurement;
- The management's accumulated adjustment for significant uncertainties that are not included in the model; and
- Future cash flows forecast on corporate loans and debt investments at stage 3.

Our expected credit losses and asset losses rate (the "**ECL rate**") is calculated under the expected credit losses impairment model by dividing expected credit loss allowance by the balance of related assets. The ECL rate for our loans and advances to customers measured at amortized cost decreased from 4.96% for the year ended December 31, 2018 to 3.87% for the year ended December 31, 2019, primarily due to the fact that our personal loans to retail banking customers, which has a relatively lower ECL rate, increased from RMB49,541.7 million to RMB80,048.3 million as of December 31, 2018 and 2019, respectively, and further decreased to

3.13% for the year ended December 31, 2020 because corporate loans, which has a relatively higher ECL rate, maintained relatively stable as of December 31, 2019 and 2020, respectively, while our NPL ratio decreased from 1.52% to 0.94% as of the same dates. The ECL rate for our loans and advances to customers measured at amortized cost decreased from 3.13% for the year ended December 31, 2020 to 3.07% for the three months ended March 31, 2021, primarily due to the increase in newly extended loans and advances to customers that are classified as normal with relatively lower ECL rate. In addition, our ECL rate for financial investment measured at amortized cost decreased from 0.17% for the year ended December 31, 2018 to 0.14% for the year ended December 31, 2019, and further decreased to 0.11% for the year ended December 31, 2020, primarily due to the decrease of financial investment in corporate bonds and non-standard assets that have relatively higher credit risk and ECL rate, which was resulted from our prudent investment policy adopted during the Track Record Period. The ECL rate for financial investment measured at amortized cost remained stable at 0.11% and 0.10% for the year ended December 31, 2020 and the three months ended March 31, 2021, respectively.

Detailed information on the above judgments and estimates is set out in Note 42.1.

Goodwill Impairment

Goodwill impairment reviews are undertaken annually or more frequently, and it is also needed if events or changes indicate a potential impairment. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash generating unit (the "**CGU**"). Our Group forecasts future cash flow of the CGU, and applies appropriate discount rate for the calculation of the present value of future cash flow. For the business combination of Zhanjiang RCB and Chaoyang RCB, the recoverable amount of the asset group is based on the six-year budget and ten-year budget approved by the management respectively, which is then estimated based on a fixed growth rate and calculated using the cash flow forecast method. Our cash flow projection periods are determined based on the forecast of the local economic development, the banking industry growth, and with reference to our past operating experience. We estimated that Zhanjiang City and Shantou City, where the two banks are located, will experience a relatively high growth for a period more than five years before the economic growths of these two cities reach a stable level. In addition, the development of the banking industry is generally in line with the local economic development. Accordingly, we have incorporated the aforementioned factors into the cash projection by using six and ten years of projection periods for Zhanjiang RCB and Chaoyang RCB respectively to reflect management's estimation of the future local economic development and the related banking business growth.

	Zhanjiang RCB			**Chaoyang RCB**	
	As of December 31, 2019	**As of December 31, 2020**	**As of March 31, 2021**	**As of December 31, 2020**	**As of March 31, 2021**
Stable period growth rate	3.00%	3.00%	3.00%	3.00%	3.00%
Pre-tax discount rate	18.07%	19.64%	19.69%	14.96%	15.02%

The growth rate is the weighted average growth rate used by our Group to forecast the cash flow after six years for Zhanjiang RCB and ten years for Chaoyang RCB respectively, which is consistent with the forecast data contained in the industry report. The management uses the cost of equity as the discount rate which can reflect the specific risks of the relevant asset group. The above assumptions are used to analyze the recoverable amounts of the asset group within the business division.

The table below sets forth the results of the recoverable amount less the carrying amount for the indicated dates:

	As of December 31, 2018	As of December 31, 2019	As of December 31, 2020	As of March 31, 2021
Zhanjiang RCB	—	406.5	15.3	71.0
Chaoyang RCB	—	—	298.3	305.4

The recoverable amounts of the asset group would equal its carrying amount if each of the key assumptions were to change as follows, with all other variables held constant:

	Zhanjiang RCB			Chaoyang RCB	
	As of December 31, 2019	As of December 31, 2020	As of March 31, 2021	As of December 31, 2020	As of March 31, 2021
Stable period growth rate	-3.46%	-0.09%	-0.44%	-2.45%	-2.88%
Pre-tax discount rate	1.64%	0.08%	0.36%	1.67%	1.72%

Our Directors and management have considered and assessed reasonably possible changes for other key assumptions and have not identified other instances that could cause the carrying amount of the CGUs to exceed its recoverable amount.

Fair Value of Financial Instruments

The Group uses valuation techniques to estimate the fair value of financial instruments which are not quoted in an active market. These valuation techniques include the use of recent transaction prices of the same or similar instruments, discounted cash flow analysis and generally accepted pricing models. To the extent practical, market observable inputs and data, such as interest rate yield curves, are used when estimating fair value through a valuation technique. Where market observable inputs are not available, they are estimated using assumptions that are calibrated as closely as possible to market observable data. However, areas such as the credit risk of the Group and the counterparty, liquidity, volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the estimated fair value of financial instruments.

During the Track Record Period, we had certain financial assets categorized within Level 3 of fair value measurement (the "**Level 3 Financial Assets**"), which amounted to RMB25,719.6 million, RMB23,286.9 million, RMB32,833.2 million and RMB32,099.3 million, respectively, as of December 31, 2018, 2019 and 2020 and March 31, 2021, representing approximately 18.3%, 18.4%, 22.9% and 21.6%, respectively, of our total assets as of the same dates. For details, please see Note 42.4 to the Accountant's Report in Appendix I to this prospectus.

During the Track Record Period, the Group has established an independent internal valuation process for financial assets and liabilities in compliance with the applicable laws, regulations and accounting policies. Our Financial Market Department and Investment Banking and Wealth Management Department take the lead to carry out the valuation of financial assets and financial liabilities. The Operation Management Department reflect the valuation results in our financial statements according to our accounting standards. The information on financial assets and liabilities for disclosure purposes is prepared by our Financial Department based on the independently reviewed valuation results.

Details of the fair value measurement of financial assets, particularly the fair value hierarchy, the valuation techniques and key inputs, including significant unobservable inputs, the relationship of unobservable inputs to fair value are disclosed in Note 42.4 of the Accountant's Report in Appendix I which was issued by our Reporting Accountant in accordance with Hong Kong Standard on Investment Circular Reporting Engagement 200 "Accountants' Report on Historical Financial Information in Investment Circulars" (the "**HKSIR 200**").

In respect of the valuation of the Level 3 Financial Assets, our Directors have carefully examined the valuation policy, the financial statements prepared in accordance with the IFRS and other supporting documents, and have studied the valuation model, methodologies and techniques. Based on the above, our Directors are of the view that the valuation performed during the Track Record Period is fair and reasonable and our financial statements are properly prepared. Our Directors are satisfied with the valuation of the Level 3 Financial Assets during the Track Record Period.

In respect of the valuation of the Level 3 Financial Assets, the Joint Sponsors have, among other things, (i) reviewed the relevant notes included in the Accountant's Report to acquire general understanding of relevant valuation techniques adopted for valuation of our financial assets; (ii) discussed with us to understand our policies and procedures in relation to the valuation of our Level 3 Financial Assets, the valuation methodologies taken and the external valuer engaged (with respect to certain rights to earnings on credit assets) by us; and (iii) discussed with our Reporting Accountant to understand the procedures they have performed in relation to such valuation for the purpose of expressing its opinion on the historical financial information of the Group for the Track Record Period as a whole, and nothing has come to the Joint Sponsors' attention that would cause the Joint Sponsors to disagree with the view of our Directors disclosed above.

Taxes

There are certain transactions and activities in the ordinary course of the Group's business for which the ultimate tax effect is uncertain. The Group made certain estimation and judgement for items of uncertainty in the application of tax legislations, taking into account existing tax legislation and past practice of tax authorities. Where the final tax outcome of these matters is different from the amounts that were initially estimated, based on management's assessment, such differences will affect the current income tax and deferred income tax during the period in which such a determination is made.

Consolidation of Structured Entities

Where the Group acts as asset manager of or investor in structured entities, the Group makes significant judgement on whether the Group controls and should consolidate these structured entities. When performing this assessment, the Group assesses the Group's contractual rights and obligations in light of the transaction structures, and evaluates the Group's power over the structured entities, performs analysis and tests on the variable returns from the structured entities, including but not limited to commission income and asset management fees earned as the asset manager, the retention of residual income, and, if any, the liquidity and other support provided to the structured entities. The Group also assesses whether it acts as a principal or an agent through analysis of the scope of its decision-making authority over the structured entities, the remuneration to which it is entitled for asset management services, the Group's exposure to variability of returns from its other interests in the structured entities, and the rights held by other parties in the structured entities.

INDEBTEDNESS

As of July 31, 2021 (being the date for the purpose of this indebtedness statement), we have the following indebtedness:

- interbank certificates of deposit in an aggregate principal amount of RMB40,530.0 million;
- tier-two capital bonds in an aggregate principal amount of RMB4,000.0 million;
- green financial bonds in an aggregate principal amount of RMB3,000.0 million;
- SME financial bonds in an aggregate principal amount of RMB5,000.0 million;
- Sannong financial bonds in an aggregate principal amount of RMB2,000.0 million;
- lease liabilities in an amount of RMB416.3 million; and
- loan commitments, bank acceptances, letters of credit and letters of guarantee issued, other commitments and contingencies that arose from our normal course of banking business.

On April 23, 2021, we approved a proposal on the public issuance of eligible tier-two capital instruments of our Bank at a shareholders' general meeting. Our Bank plans to issue eligible tier-two capital instruments of no more than RMB4.0 billion in the domestic markets to replenish our Bank's tier-two capital. The eligible tier-two capital instruments issuance plan is further subject to the approval by the relevant regulatory authorities.

Except as disclosed above, we did not have, as of July 31, 2021, any material and outstanding mortgages, charges, debentures, other debt capital (issued or agreed to be issued), bank overdrafts, loans, liabilities under acceptance or other similar indebtedness, hire purchase and finance lease commitments or any guarantees or other material contingent liabilities. Our Directors have confirmed that there has not been any material change in our indebtedness or contingent liabilities since July 31, 2021 up to the date of this prospectus.

RULE 13.13 TO RULE 13.19 OF THE LISTING RULES

We confirm that there are no circumstances which will trigger disclosure requirements under Rule 13.13 to Rule 13.19 of the Listing Rules.

DIVIDEND

Dividend Policy

Our Board of Directors is responsible for submitting proposals (adopted by two-thirds majority) in respect of dividend payments, if any, to the Shareholders' general meeting for approval. The determination of whether to pay dividends and the amount of such dividends is based on our results of operations, cash flows, financial condition, capital adequacy ratios, future business prospects, statutory and regulatory restrictions on the payment of dividends by us and other factors that our Board of Directors considers relevant. Subject to our Articles of Association and laws and regulations on profit distribution by banks, our Board of Directors will recommend dividend payments to our Shareholders' general meetings. Under the PRC Company Law and our Articles of Association, all of our Shareholders holding the same class of shares have equal rights to dividends and other distributions proportionate to their shareholding.

Under PRC laws and our Articles of Association, we may only pay dividends out of our distributable profits. Our distributable profit represents the lowest of (i) our consolidated net profit attributable to our equity holders for a period plus the distributable profits or net of the accumulated losses, if any, at the beginning of such period as determined under PRC GAAP, (ii) the unconsolidated net profit of our Bank for the period plus distributable profits or net of accumulated losses, if any, at the beginning of such period, as determined under PRC GAAP, (iii) our consolidated net profit attributable to our equity holders for the period plus distributable profits or net of accumulated losses, if any, at the beginning of such period, as determined under IFRS, and (iv) the unconsolidated net profit of our Bank for the period plus distributable profits or net of accumulated losses, if any, at the beginning of such period, as determined under IFRS, less:

- appropriations we are required to make to the statutory reserve, which is currently 10% of our unconsolidated net profit as determined under PRC GAAP, until such reserve reaches an amount equal to 50% of our registered capital;
- a general reserve we are required to set aside; and
- appropriations to a discretionary surplus reserve as approved by our Shareholders in an annual general meeting.

Under the current PRC GAAP and IFRS, we do not expect there is any material difference between our net profit prepared in accordance with PRC GAAP and IFRS which may materially impact the amount of dividend that we can declare unless new accounting standards or related amendment under PRC GAAP and IFRS are issued which would result in different adoption time and resulted in non-convergence between these two accounting standards.

Under relevant MOF regulations, we are required to maintain a general reserve no less than 1.5% of the balance of our risk-bearing assets from our net profits after tax. This general reserve constitutes part of our reserves. As of March 31, 2021, the balance of our general reserve amounted to RMB5,767.7 million, which were in compliance with all MOF requirements in respect of appropriation of the general reserve.

Any distributable profit that is not distributed in a given year is retained and available for distribution in subsequent years. However, generally we do not pay any dividends in a year in which we do not have any distributable profit in respect of that year. The payment of any dividends by us must also be approved at a shareholders' general meeting. We are prohibited from making any profit distributions to our Shareholders before recovering our accumulated losses and making appropriations to the statutory surplus reserve, the general reserve, and any discretionary surplus reserve as approved by our Shareholders' general meeting. If we make any profit distributions in violation of these rules, our Shareholders are required to return the amounts they received in such profit distributions to us.

CBIRC has the authority to prohibit any bank that fails to meet the relevant capital adequacy ratio requirements, or has violated other relevant PRC banking regulations, from paying dividends or making other forms of distributions. As of March 31, 2021, we had a capital adequacy ratio of 13.93%, a tier-one capital adequacy ratio of 11.56% and a core tier-one capital adequacy ratio of 11.52%, which were all in compliance with the relevant CBIRC regulations. Please see "Supervision and Regulation — Supervision over Capital Adequacy — Regulatory Requirements in respect of Capital Adequacy Ratios" and "Supervision and Regulation — Principal Regulators — CBIRC".

Dividend Declared during the Track Record Period

On March 28, 2018, our Shareholders approved and passed the resolution in respect of the dividends in an amount of RMB1,308.8 million for the year ended December 31, 2017 in a shareholders general meeting and RMB1,308.8 million had since been declared and distributed in respect of the year ended December 31, 2017. On April 25, 2019, our Shareholders approved and passed the resolution in respect of the dividends in an amount of RMB1,366.2 million for the year ended December 31, 2018 in a shareholders general meeting. On April 28, 2020, our Shareholders approved and passed a resolution regarding the distribution of dividends of RMB1,492.5 million in respect of the year ended December 31, 2019 at a shareholders' general meeting. On April 23, 2021, our Shareholders approved and passed a resolution regarding the distribution of dividends of RMB1,492.5 million in respect of the year ended December 31, 2020 at a shareholders' general meeting. As of the date of this prospectus, the abovementioned dividends had been fully paid and there was no declared but unpaid dividends.

Special Dividend

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

As the record date of such dividend is prior to the Listing Date, our H Shareholders will not be entitled to such special dividend. As of the Latest Practicable Date, such special dividend has not been paid. As our Bank can control whether or not to distribute the special dividend through controlling the progress of the Listing, such special dividend has not been recognized during the Track Record Period.

Dividends paid in prior periods may not be indicative of future dividend payments. We cannot guarantee when, if and in what form or size, dividends will be paid in the future.

LISTING EXPENSES

We expect to incur listing expenses of approximately RMB228.9 million (assuming an Offer Price of HK$8.32 per H Share, being the mid-point of the indicative Offer Price range as stated in this prospectus, and assuming the Overallotment Option is not exercised) representing professional fees, underwriting commission and fees incurred in connection with the Global Offering and the Listing. We have incurred listing expenses of RMB36.4 million up to March 31, 2021 which were included in "other assets" in the consolidated statements of financial position and are expected to be accounted for as a deduction from equity upon listing. None of the listing expenses were reflected in our consolidated statements of comprehensive income during the Track Record Period. Listing expenses of approximately RMB192.5 million are expected to be incurred after March 31, 2021, of which RMB15.7 million is expected to be charged to our consolidated statement of comprehensive income and RMB176.8 million is expected to be accounted for as a deduction from equity. The listing expenses above are the latest practicable estimate for reference only, and the actual amount may differ from this estimate. Our Directors do not expect such expenses to have a material adverse impact on our results of operations for the year ending December 31, 2021.

UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted net tangible assets is prepared based on our net tangible as of March 31, 2021 derived from our financial information as of March 31, 2021 as set out in the Accountant's Report set forth in Appendix I to this prospectus, adjusted as described below.

The unaudited pro forma statement of adjusted net tangible assets has been prepared to show the effect on our net tangible assets as of March 31, 2021 as if the Global Offering had occurred on March 31, 2021. The unaudited pro forma adjusted net tangible assets per share is calculated in accordance with Rule 4.29 of the Listing Rules.

The unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and, as a result, may not be an accurate reflection of our financial position.

	Unaudited consolidated net tangible assets as of March 31, 2021(1)	**Special dividend(2)**	**Estimated net proceeds from the Global Offering(3)**	**Unaudited pro forma adjusted consolidated net tangible assets**	**Unaudited pro forma adjusted consolidated net tangible assets per share**	
			(in thousand of RMB)		*(RMB)(4)*	*(HK$)(5)*
Based on the Offer Price of HK$7.92 per Offer Share	37,149,737	(861,068)	7,345,172	43,633,841	6.33	7.63
Based on the Offer Price of HK$8.71 per Offer Share	37,149,737	(861,068)	8,083,217	44,371,886	6.44	7.76

Notes:

(1) The consolidated net tangible assets attributable to the shareholders of the Bank as of March 31, 2021 are based on the consolidated net assets attributable to the shareholders of the Bank of RMB37,761.2 million, after deduction of intangible assets of RMB91.0 million and goodwill of RMB520.5 million.

(2) Pursuant to the resolutions of the Shareholders general meeting on April 25, 2019, the Bank declared a special cash dividend of RMB1.5 per ten shares to its Shareholders before the completion of the Global Offering. Following that, pursuant to the resolutions of our Board of Directors on September 6, 2021, the Bank confirmed to declare the special cash dividend to its Shareholders whose name appear on the Bank's register of members on August 31, 2021. The total amount of such dividend is approximately RMB861.1 million, which is expected to be paid after the entering into of the Price Determination Agreement but before the Listing Date. For the purpose of this unaudited pro forma information, the special dividend is regarded as part of the subject matter of the Global Offering and the amount of dividend of RMB861.1 million is calculated based on the number of shares of 5,740 million shares of the Bank as at March 31, 2021.

(3) The estimated net proceeds from the Global Offering for the purpose of unaudited pro forma adjusted consolidated net tangible assets are based on the Offer Price of HK$7.92 per Offer Share (being the low-end of the proposed Offer Price range) and HK$8.71 per Offer Share (being the high-end of the proposed Offer Price range) and there are 1,148,091,000 Offer Shares issued in the Global Offering,

after deduction of the underwriting fees and other related listing expenses payable by the Bank and taking no account of any Shares which may be issued upon the exercise of the Over-allotment Option.

(4) The unaudited pro forma adjusted consolidated net tangible assets per Share are arrived at after the adjustments referred to in the preceding paragraphs and on the basis of 6,888,545,510 Shares in issue assuming that the Global Offering has been completed on March 31, 2021, and taking no account of any Shares which may be issued upon the exercise of the Over-allotment Option.

(5) For the purpose of this unaudited pro forma adjusted net tangible assets, the balances stated in Renminbi are converted into Hong Kong dollars at a rate of RMB0.8304 to HK$1.00. No representation is made that the Hong Kong dollar amounts have been, could have been or could be converted to Renminbi, or vice versa, at that rate.

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

WORKING CAPITAL

Rule 8.21A(1) and Paragraph 36 of part A of Appendix 1A of the Listing Rules require this prospectus to include a statement by our Directors that, in their opinion, the working capital available to us is sufficient for at least 12 months from the publication of this prospectus or, if not, how it is proposed to provide the additional working capital our Directors consider to be necessary. We are of the view that the traditional concept of "working capital" does not apply to banking businesses such as ours. We are regulated in the PRC by, among other things, PBoC and CBIRC. These regulatory authorities impose minimum capital adequacy and liquidity requirements on commercial banks operating in the PRC. Rule 8.21A(2) of the Listing Rules provides that such a working capital statement will not be required to be made by an issuer whose business is entirely or substantially that of the provision of financial services, provided that the Hong Kong Stock Exchange is satisfied that the inclusion of such a statement would not provide significant information for investors and the issuer's solvency and capital adequacy are subject to prudential supervision by another regulatory body. In view of the above, pursuant to Rule 8.21A(2) of the Hong Kong Listing Rules, we are not required to include a working capital statement from the directors in this prospectus.

NO MATERIAL ADVERSE CHANGE

Up to the date of this prospectus, our Directors confirmed that there has been no material adverse impact on our loan portfolio and asset quality, financial results or business operations and loans recoverability as a result of the outbreak of COVID-19, taking into account of the amount involved under the Deferral Notices and its outstanding amount and overdue amount as at June 30, 2021. After performing sufficient due diligence work which our Directors consider appropriate and after due and careful consideration, our Directors confirm that, up to the date of this prospectus, save for the subsequent events as described in Note 43 to the Accountant's Report set forth in Appendix I to this prospectus and the recent developments as described in "Summary — Recent Developments", there has been no material adverse change in our financial or trading position since March 31, 2021, being the end date of the periods reported in the Accountant's Report in Appendix I to this prospectus, and there has been no event since March 31, 2021 that would materially affect the information as set out in the Accountant's Report in Appendix I to this prospectus.