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EXECUTIVES

Guangheng Ji
Chairman of the Board &
Chairman of Executive Committee

Gregory Dean Gibb
Co-CEO & Director

Yong Suk Cho
Co-CEO & Director

Siu Kam Choy
Controller & CFO of Puhui

Xigui Zheng
Chief Financial Officer

Yu Chen
Head of Board Office & Capital Markets

ANALYSTS

Hans Fan
CLSA Limited, Research Division

Meizhi Yan
UBS Investment Bank, Research Division

Ran Xu
Morgan Stanley, Research Division

Yi Wu
BofA Securities, Research Division

Presentation

Operator

Ladies and gentlemen, thank you for standing by, and welcome to Lufax Holdings Ltd Third Quarter 2021 Earnings Call. [Operator Instructions] Please note, this event is being recorded.

Now I'd like to hand the conference over to your speaker host today, Mr. Yu Chen, the company's Head of Board Office and Capital Markets. Please go ahead, sir.

Yu Chen
Head of Board Office & Capital Markets

Thank you, operator. Hello, everyone, and welcome to our third quarter 2021 earnings conference call. Our quarterly financial and operating results were released by our Newswire services earlier today and are currently available online. Today, you will hear from our Chairman, Mr. Ji Guangheng, who will start the call with some general updates on our achievements for the quarter and share our thoughts on recent regulatory developments and industry dynamics.

Our Co-CEO, Mr. Greg Gibb, will then provide a review of our progress and details of our development strategy. Afterwards, our CFO, Mr. James Zheng, will offer a closer look into our financials before we open up the call for questions. In addition, Mr. Y.S. Cho, our Co-CEO; and Mr. David Choy, CFO of our Credit Facilitation Business, will also be available during the question-and-answer session.

Before we continue, I would like to refer you to our safe harbor statement in our earnings press release, which also applies to this call as we will be making forward-looking statements. Please also note that we will discuss non-IFRS measures today, which are more thoroughly explained and reconciled to the most comparable measures reported under the International Financial Reporting Standards in our earnings release and filings with the SEC.

With that, I'm now pleased to turn over the call to Mr. Ji, Chairman of Lufax.

Guangheng Ji
Chairman of the Board & Chairman of Executive Committee

[Foreign Language]

Yu Chen
Head of Board Office & Capital Markets

[Interpreted] Hello, everyone, and thank you for joining our 2021 third quarter earnings call. For today's call, I will start with an update of our key achievements in the quarter, then address top concerns that investors and analysts raised in our recent communications and finally, share our views on the latest market development.

Guangheng Ji
Chairman of the Board & Chairman of Executive Committee

[Foreign Language]

Yu Chen
Head of Board Office & Capital Markets

[Interpreted] First, key achievements in 2021 Q3. Overall, we achieved steady and healthy growth during the third quarter. At the same time, we improved our regulatory compliance and corporate governance. We published our initial post-IPO ESG report as part of our proactive effort in establishing ourselves as a role model for regulatory compliance and corporate governance among overseas-listed Chinese companies.

Guangheng Ji
Chairman of the Board & Chairman of Executive Committee

[Foreign Language]

Yu Chen
Head of Board Office & Capital Markets

[Interpreted] In the third quarter, our total income increased by 22% year-over-year. Excluding the impact of nonrecurring expenses in the third quarter of 2020, our net profit in the third quarter increased by 18% year-over-year. While our net profit in the 9 months ended September 30, 2021, increased by 28% year-over-year.

Guangheng Ji
Chairman of the Board & Chairman of Executive Committee

[Foreign Language]

Yu Chen
Head of Board Office & Capital Markets

[Interpreted] Due to the steady and healthy growth of our operational results and our confidence towards market outlook and business prospects, the Board of Directors decided to pay out 20% to 40% of our net profit in the previous years as dividends starting from 2022. We will release the details of our dividend payout plan in the fourth quarter earnings report in early 2022.

Guangheng Ji
Chairman of the Board & Chairman of Executive Committee

[Foreign Language]

Yu Chen
Head of Board Office & Capital Markets

[Interpreted] Following the completion of our USD 300 million shares repurchase program in the second quarter, we announced additional USD 700 million in August. As of September 30, 2021, we had bought back about 60 million ADSs worth approximately USD 600 million with roughly USD 400 million remaining.

Guangheng Ji
Chairman of the Board & Chairman of Executive Committee

[Foreign Language]

Yu Chen
Head of Board Office & Capital Markets

[Interpreted] Despite market fluctuations, we maintained a high level of confidence about our own future, build on our steady profit generation, excellent operating cash flow, abundant capital reserve and effective regulatory response. We plan to continue to return value to our shareholders through share repurchases and dividend payout.

Guangheng Ji
Chairman of the Board & Chairman of Executive Committee

[Foreign Language]

Yu Chen
Head of Board Office & Capital Markets

[Interpreted] On the compliance front, we proactively follow regulatory guidance and fully completed the run-off of our legacy P2P products in the third quarter, thus accomplishing a smooth and virtuous withdrawal from the online lending business, setting a role model for the industry.

Guangheng Ji
Chairman of the Board & Chairman of Executive Committee

[Foreign Language]

Yu Chen
Head of Board Office & Capital Markets

[Interpreted] In mid-October, Mr. Guo Shuqing, Chairman of CBIRC stated publicly that -- in the process of rectifying reforming the 14 Internet-based lending platforms, the financial regulators raised close to 1,000 issues. The majority of which have been addressed and about half of which have been resolved. As such, we anticipate more material substantive progress by the end of this year. Recently, we noticed the speech by certain regulators on the boundaries of financial licenses.

Guangheng Ji
Chairman of the Board & Chairman of Executive Committee

[Foreign Language]

Yu Chen
Head of Board Office & Capital Markets

[Interpreted] I want to reiterate, among those companies undergoing regulatory review, Lufax has maintained constructive dialogues with the regulatory authorities and progressed smoothly through all aspects of the rectification by leveraging our domain expertise financial DNA, and thorough understanding of regulations.

Our early understanding is reasonably consistent with recent requirements, and we periodically review all of our business lines to ensure compliance upholding our principal preemptive diagnosis and swift operational adjustment for timely optimal results. And we will proactively adjust our business direction to more closely align with regulatory trends as always.

Guangheng Ji
Chairman of the Board & Chairman of Executive Committee

[Foreign Language]

Yu Chen
Head of Board Office & Capital Markets

[Interpreted] On the ESG front, we devoted substantial resources to establishing ourselves as a role model for overseas-listed Chinese companies in terms of compliance governance. Our initial post-IPO ESG report published in September of this year, showcased our achievements in implementing strong governance, green finance and consumer services and protection. Also, our inclusion in the FTSE Russell's 2 major ESG Indices demonstrated market endorsement of our accomplishment in ESG, corporate responsibility and social value.

Guangheng Ji

Chairman of the Board & Chairman of Executive Committee

[Foreign Language]

Yu Chen
Head of Board Office & Capital Markets

[Interpreted] I then want to share some of the key investor concerns. Since releasing our Q2 results, our management team have maintained frequent communication with investors by hosting more than 60 events, including post earnings calls, and holding roadshows and other meetings.

Guangheng Ji
Chairman of the Board & Chairman of Executive Committee

[Foreign Language]

Yu Chen
Head of Board Office & Capital Markets

[Interpreted] We received 320 questions from investors, among which 253 questions or 79% of the total were about macroeconomics and regulatory trends. 51 or 16% of the total questions were about our business operations and the remainder were about our capital market initiatives such as dividend pay out and share buyback. I will share our thoughts on macroeconomics and regulatory directions, then Greg and James will discuss our operational and financial details.

Guangheng Ji
Chairman of the Board & Chairman of Executive Committee

[Foreign Language]

Yu Chen
Head of Board Office & Capital Markets

[Interpreted] Regarding macroeconomics, some investors are concerned about the impact of our future business from the tightening of the China's property market and the slowdown of overall economic growth.

Guangheng Ji
Chairman of the Board & Chairman of Executive Committee

[Foreign Language]

Yu Chen
Head of Board Office & Capital Markets

[Interpreted] Our direct and indirect client exposure to the real estate industry is rather small. Also bearing in mind that even though the macro economy may be under pressure in the near term, medium, small and micro-sized businesses are extremely resilient and served as crucial blood vessels of the Chinese economy.

Consequently, we have seen healthy and stable numbers in business and risk metrics. At the same time, we'll remain vigilant and closely monitor all aspects.

Guangheng Ji
Chairman of the Board & Chairman of Executive Committee

[Foreign Language]

Yu Chen
Head of Board Office & Capital Markets

[Interpreted] Second, regarding regulatory policies, some investors questioned whether China will retain its return to capital market openess and where regulations would head next.

Guangheng Ji
Chairman of the Board & Chairman of Executive Committee

[Foreign Language]

Yu Chen
Head of Board Office & Capital Markets

[Interpreted] We believe that China is at a critical point of transitioning from high-speed to high-quality growth. The nation's reformative and open stance remains unchanged. Its capital market stays connected to the world economy and needs investments from around the globe to develop a healthy domestic capital market and its regulatory authorities aim to maintain long-term market stability.

Guangheng Ji
Chairman of the Board & Chairman of Executive Committee

[Foreign Language]

Yu Chen
Head of Board Office & Capital Markets

[Interpreted] Speech given at the opening ceremony of the Fourth China International Import Expo, President Xi reaffirmed China's willingness to open to the rest of the world. At the 2021 annual Financial Street Forum held in late October, Vice Premium Liu He declared that the objectives of China's financial system should include promoting a high level of openness establishing a fair market environment, protecting the legal rights of foreign enterprises in China, prioritizing the development of financial technology and improving the quality and efficiency of financial services.

We believe that the government will keep refining regulatory policies to foster a stable and sustainable environment for capital market development.

Guangheng Ji
Chairman of the Board & Chairman of Executive Committee

[Foreign Language]

Yu Chen
Head of Board Office & Capital Markets

[Interpreted] When it comes to implementing industry-specific regulations such as licensing requirements for credit scoring, preventing loan facilitators and co-lenders from sharing borrower data directly with financial institutions and reducing borrowing costs the direct impact on our business is rather muted. Our business model and operational performance remains steady and healthy, thanks to our preemptive regulatory assessment, proactive operational adjustments and anticipatory business realignment.

Going forward, we'll continue to maintain, open up frequent dialogues with regulators at all levels and through all available channels in order to maintain a tight and accurate grasp of policy intentions and achieve a more thorough implementation of regulatory requirements.

Guangheng Ji
Chairman of the Board & Chairman of Executive Committee

[Foreign Language]

Yu Chen
Head of Board Office & Capital Markets

[Interpreted] Certainly, Lufaxs' unique business model. I would like to reiterate the compliant and unique nature of our retail product facilitation business as well as the core competitive advantages of our business model.

Guangheng Ji
Chairman of the Board & Chairman of Executive Committee

[Foreign Language]

Yu Chen
Head of Board Office & Capital Markets

[Interpreted] First, we focus on serving small macro businesses in the third quarter of 2021, 81% of our new loans were distributed to small macro business owners. As of the end of September, we had provided credit facilitation services to 16.21 million cumulative borrowers.

Guangheng Ji
Chairman of the Board & Chairman of Executive Committee

[Foreign Language]

Yu Chen
Head of Board Office & Capital Markets

[Interpreted] Second, we conduct our business activities through licensed financial guarantee subsidiaries. What differentiates us from those unlicensed and pure-play loan facilitators is that we have a business license to provide financial guarantees backed with registered capital that we participate in the lending business in a material manner and that we ensure strict regulatory compliance in every aspect of our business process.

Guangheng Ji
Chairman of the Board & Chairman of Executive Committee

[Foreign Language]

Yu Chen
Head of Board Office & Capital Markets

[Interpreted] Third will be a credit risk on those new loans that we facilitate in accordance with regulatory guidance and requirements, we have established a sustainable risk-sharing business model and increased our risk exposure in the third quarter of 2021, excluding our consumer finance subsidiary, our credit risk exposure to the new loans facilitated increased to 20%.

Going forward, to stay in sync with regulatory guidance, we plan to make additional preparations for further expansion of our credit risk exposure.

Guangheng Ji
Chairman of the Board & Chairman of Executive Committee

[Foreign Language]

Yu Chen
Head of Board Office & Capital Markets

[Interpreted] Third, we conventionally reduce our borrowers cost, thanks to our technology advancement and managerial efficiency improvement. Since third quarter, we have reduced the all-in cost of new loans facilitated to 23.1%. Going forward, we'll continue to optimize our cost structure through technology and fulfill our commitment to financial inclusion.

Guangheng Ji
Chairman of the Board & Chairman of Executive Committee

[Foreign Language]

Yu Chen
Head of Board Office & Capital Markets

[Interpreted] In conclusion, we believe that FinTech industries regulatory oversight and ratification should achieve more progress, which in turn should cultivate stable and sustainable industry growth. Our retail credit facilitation and wealth management businesses are fully aligned with China's policy objectives of supporting small and micro businesses to attain common prosperity. In a constantly evolving regulatory environment, our unique business model and strong corporate governance enable us to accomplish gradual business transformation and achieve steady growth.

Guangheng Ji
Chairman of the Board & Chairman of Executive Committee

[Foreign Language]

Yu Chen
Head of Board Office & Capital Markets

[Interpreted] Looking ahead, we'll continue to uphold our commitments to maintaining full operational compliance, providing compassionate and inclusive financial services setting ourselves as a role model for corporate governance and the overseas-listed Chinese companies and generating increasing value for our shareholders and our society.

Guangheng Ji
Chairman of the Board & Chairman of Executive Committee

[Foreign Language]

Yu Chen
Head of Board Office & Capital Markets

[Interpreted] With that, I will turn the call over to Greg, who will share our business updates for the quarter.

Gregory Dean Gibb
Co-CEO & Director

Thank you, Chairman, Ji. We delivered strong revenue and profit growth in the third quarter of 2021 despite the changing economic and regulatory environment. We grew our revenue by 21.8% and our net profit by 90.8% year-over-year, respectively. Excluding the impact of the C-round restructuring expenses in the third quarter of 2020, our adjusted net profit increased by 18.1% year-over-year.

Before James takes you through our detailed operational and financial updates, I'd like to cover 3 broader areas related to our business. First, industry concern on the real estate sector; second, an update on the regulatory rectification progress; and third, our financial position and capital-related plans. Concerns on the real estate sector.

While we've observed the risk in the broader economic environment, including increased credit risks in the real estate sector, there has been no impact on our business performance to date. We do not provide lending services to property developers, although some of our small business customers produce construction materials and provide home decoration services. Our exposure to borrowers who are directly or indirectly linked to the property sector is quite limited.

To date, we have not detected any sign of credit deterioration in our secured or unsecured loan facilitation portfolios, and we will remain vigilant and address credit policies quickly if needed. As of this third quarter flow-through rates indicating future credit quality remains stable and in line with the previous several quarters.

Our wealth management business and proprietary investment book have limited exposure to the real estate sector. Second, a little bit more on the regulatory rectification progress. As mentioned by Chairman Ji, regulators recognize that the current industry rectification effort should see substantial progress by the end of the year and some industry observers believe the current stage of regulatory changes is reaching finalization.

Based on our understanding of the current regulatory requirements, we do not anticipate any major changes to our business model, nor a substantial impact on future business development. Over the last year, regulatory rectification of lending businesses has really included the following elements for platforms, separating lending services from other financial and payment services, rationalizing personal consumption risks, facilitating lower loan pricing to support the real economy and having skin in the game to share credit risk with requisite licenses and capital requirements.

Rectification has also required partnering banks to demonstrate independent risk management, set limits for cooperation with any one platform and limit lending to their geographic footprint. Finally, rectification requires data sharing between platforms and finance institutions to be conducted via a credit rating license by the mid of 2023.

Lufax continues to make consistent progress on all rectification requirements. Lufax conducts lending, facilitation independent of any other financial service, about 81% of all new loans facilitated as of the third quarter with small business owners in line with policy priorities. All-in pricing for loan balance has dropped to 23.1% as of the third quarter this year, down from 26.6% a year ago.

As of the third quarter, we now bear risk on 20% of all new loans our nationwide guarantee companies, which share credit risk on all new lending operate with a leverage ratio under 3x as of September 31 this year. Given our strong capital position and likely future regulatory requirements, we expect to bear risk on 30% of all new loans in the future, probably by the end of next year.

All of the aforementioned operating metrics exclude those of our consumer finance subsidiary. Lufax's 59 bank partners operate with their independent risk systems. Given our diversified partnerships, current cooperation is fully aligned with the regional footprint matching requirements and each partnership operates within the single platform concentration limits.

We are currently in discussions with a number of parties to establish a credit-rating license within the stated rectification period, if this indeed becomes a requirement. And here, I'll just elaborate a bit. We prepare -- we will be prepared to connect to a third-party credit-rating license by March of next year. And based on our latest understanding, the cost of that connection will not exceed more than CNY 100,000 per month. So indeed, it will not bring additional substantial costs the way that we operate.

Third, on our financial position and capital plans. Through this third quarter, we've been able to meet the rectification requirements and optimize customer pricing while sustaining both our revenue take rates and net profit margins at or above historical levels. As of September 31, our net asset is around CNY 93 billion, liquid assets maturing in 90 days or less than CNY 47 billion, providing us with a position of strength to maximize shareholder value and make ongoing investments in the business.

In terms of capital management, as just mentioned, we've completed about 60% of the 1 billion in shareholder buyback that we've announced in recent quarters. Despite our plans to increase skin in the game in the lending facilitation business, our strong ongoing cash flows that we announce today that starting next year, we will begin to pay 20% to 40% of net profit of the previous year in cash dividend to shareholders.

These plans should allow us to continue to improve shareholder return on equity and leave us with more than sufficient resources to continue to invest in our core business while taking advantage of opportunities which may arise medium term due to the changing industry and regulatory landscape. Within the core business, our priority areas for investment remain upgrading our lending services direct sales force with new technology enablement tools, deepening deployment of AI capabilities in risk management and collections infrastructure adding new functionality to our product lines and sharing technology capabilities with financial partners in both lending facilitation and wealth management.

The main goals for our technology deployment are increasing market reach, enhancing our unique O2O business model productivity, deepening partner connectivity and further automating services to improve both service quality and cost efficiency. Worthy of note is we did increase our O2O sales force serving primarily small business owners in Q3 to around 64,000, up from 59,000 at the end of Q2 to further expand market reach. The increase in direct sales was masked by an increase in sales force productivity.

Excluding new recruited sales force in Q3, our productivity rose 8% quarter-on-quarter and 7% year-over-year. If we include the new recruited sales force, our productivity rose 4% quarter-on-quarter. This increased investment in O2O direct sales reaffirms our view that our offline-to-online services approach is the most cost-effective way to increase the coverage of this otherwise hard-to-reach small business owner segment.

Also worthy of note is emerging affluent investors, those investing CNY 300,000 or more on the platform made up 81% of customer assets on our wealth management platform, up from 78% a year ago. The revenue take rate for wealth management platform increased from 31.8 basis points to 44.1 basis points quarter-on-quarter due to the increased mix of qualified investor products, insurance services and technology enablement fees.

Our overall performance for the third quarter is in line with our prior guidance. And today, we reaffirm our prior guidance for the full year for revenue and profit growth. I'll now turn the call over to James Zheng, our CFO, to go through the detailed operating and financial performance and our reaffirmed guidance for the year.

Xigui Zheng
Chief Financial Officer

Thank you, Greg. I will now provide a closer look into our third quarter operational and financial results. Before I begin, please be reminded that all numbers are in RMB terms and all comparisons are on a year-over-year basis unless otherwise stated. We delivered another very strong quarter, achieving double-digit growth in both revenue and net profit. Our total income increased by 21.8% to CNY 15.9 billion, and our net profit increased by 90.8% to CNY 4.1 billion year-over-year. If compared to adjusted net income in the same period last year, which excludes the impact of the C-round restructuring expenses, net profit increased by 18.1% year-over-year.

Let me share some of the business milestones we achieved during the quarter despite the economic slowdown and the regulatory overhead. First, we maintained stable unit economics despite APR declines. Our loan balance APR was 23.1% in the third quarter of 2021, a 0.9% point decline from 24% in the second quarter of 2021 and a 3.5% point decline from 26.6% in the third quarter of 2020.

In comparison, our loan balance take rate remained stable at 9.7% in the third quarter of 2021, same as second quarter and a 0.3% point increase from the third quarter of 2020. We were able to buck the trend because we continue to diversify our funding sources and increase the number of banking partners we work with.

Additionally, we attained further reductions in the credit insurance premiums on our loan portfolio. Also, thanks to our new methods of charging customers, we experienced diminishing impact from the early loan repayments. Above all, we drove relentless improvements in our sales and marketing efficiency. All these initiatives combined should enable us to maintain stability in our take rate and the net margin even if the APR may reduce further in our retail credit facilitation business in the future.

Second, we sustained growth in our overall loan volume with an optimized business mix. On the retail credit side, we grew our new loan sales by 16.2% to CNY 171.7 billion during the third quarter of 2021, in line with our expectations. At the same time, we continued focusing on serving small business owners and improving the risk profile of our borrowers.

In the third quarter, excluding our consumer finance subsidiary, 80.5% of new loans facilitated were disbursed to small business owners, up from 75.7% in the same period of 2020. On the Wealth Management side, our total client assets increased by 12.4% to CNY 425.1 billion as of September 30, 2021. Client asset contributions from mass-affluent customers investing more than CNY 300,000 increased to 80.8% as of September 30, 2021, up from 77.5% as of September 30, 2020.

Third, we continue to evolve our risk-sharing business and stabilize asset quality. In line with prevailing regulatory requirements, we bore credit risks for 20% of the new loans we facilitated in the third quarter of 2021, up from 16% in the second quarter and 7% in the third quarter last year.

As of September 30, 2021, our outstanding balance of loans facilitated with guarantees from third-party credit enhancement partners had a decrease to 81.1% from 91.8% a year ago. All of the aforementioned operating metrics exclude growth of our consumer finance subsidiary. Driven by the evolving risk sharing business development and ongoing technological operational improvements, excluding our consumer finance subsidiary and the legacy products, DPD 30-plus and the DPD 90-plus delinquency rate remained stable at 1.9% and 1.1% for total loans we facilitated as of September 30, 2021, compared to 1.9% and 1.1% as of June 30, 2021.

Fourth, we improved the take rate of our wealth management segment through product mix optimization. During the quarter, our take rate for the segment increased by 12.3 bps to 44.1 bps from 31.8 bps in the previous quarter, primarily driven by our continued product mix optimization as we sharpened our focus on products with higher take rates.

Now let's take a closer look into the financials. As the revenue mix of our retail credit facilitation business continue to improve, thanks to the evolution of our business and risk sharing model. Total income increased by 21.8% year-over-year. During the quarter, while the platform service fees decreased by 3.5% to CNY 9.6 billion, our net interest income grew 57.2% to CNY 3.8 billion, and our guaranteed income grew by more than 600% to CNY 1.3 billion.

In addition, other income, which is directly linked to delivering services to our financial partners increased by 144% to CNY 1 billion. As a result, our retail credit facilitation platform service fee as a percentage of total revenue decreased to 57.1% from 72%. Because consolidated trust plans provide lower funding costs. We continue to utilize them in our funding operations enabling our net interest income as a percentage of total revenue to increase to 23.9% from 18.5% a year ago.

Moreover, as we continue to build more credit risk, we generated more guaranteed income, reaching 8.1% as a percentage of total revenue compared to 1.3% a year ago. By expanding our services to credit enhancement partners in account management, collections and other value-added services, our other income as a percentage of total revenue increased to 6.3% from 3.1% a year ago.

Our investment income increased by 149% to CNY 266 million in the quarter from CNY 107 million in the same period of last year, mainly due to the increase of investment assets and return. In terms of wealth management, our platform transaction and service fees decreased by 4.7% to CNY 467 million in the third quarter from CNY 490 million in the same period of 2020. This decrease was mainly driven by the runoff of legacy products and partially offset by the increase in fees generated from the company's current products.

Now moving on to our expenses. In the third quarter, our total expenses grew by 5.1% to CNY 9.9 billion, excluding the

CNY 1.3 billion in C-round restructuring expenses in the third quarter of 2020. Adjusted total expenses grew by 22.2% year-over-year mainly driven by the increase in credit impairment costs. However, excluding credit and asset impairment losses, financial costs and other losses, total expenses increased by 10.5% in the third quarter as we maintain our growth trajectory and further improved operating efficiency.

Our sales and marketing expenses, which include expenses for borrowers and investor acquisition as well as general sales and marketing expense increased by 7% to CNY 4.6 billion in the third quarter. Our borrower acquisition expenses, which are a major component of our total sales and marketing expenses, decreased by 8.5% year-over-year to CNY 2.6 billion, mainly driven by increased sales productivity and the decreased sales commission.

Our investor acquisition and retention expenses increased by 10.1% to CNY 0.2 billion in the third quarter, mostly due to the increase in marketing efforts to attract and retain investors. Our general sales and marketing expenses, which are mainly comprised of payroll and related expenses for marketing personnel, brand promotion costs, consulting fees, business development costs as well as other marketing and advertising costs, increased by 39.2% to CNY 1.8 billion in the third quarter from CNY 1.3 billion a year ago.

This year-over-year increase was largely due to the increase in sales costs and lower base in the third quarter of 2020, resulting from the social security relief during the COVID-19 outbreak in the same period. Our general and administrative expenses increased by 46% to CNY 937 million in the third quarter from CNY 642 million a year ago. This increase was mainly due to the increase of accrued bonus driven by better performance, lower base fees in third quarter of 2020 and headcount expansion in the third quarter of 2021 to support our new business development initiatives, including the development of our consumer finance business.

Our operations and servicing expenses increased by 6.3% to CNY 1.7 billion in the third quarter from CNY 1.6 billion a year ago. This increase was primarily due to the increase in trust plan management expenses resulting from the increase in usage of consolidated trust plan. We remain committed to investing in technology, research and development as our technology and analytics expense increased by 8.7% to CNY 524 million in the third quarter.

Our credit impairment losses increased by 74.8% to CNY 1.7 billion in the third quarter from CNY 952 million a year ago. This was due to the continuing evolution of our business model, which led to increased loan-related risk exposure and higher upfront credit impairment losses.

It is worth noting that the increase in impairment losses is purely a function of the increase of the proportion of credit risks borne by us. While the overall risk profile of our borrowers has continued to improve, as mentioned earlier. Our asset impairment losses increased to CNY 410 million in the third quarter due to the impairment losses of intangible assets and goodwill.

Our finance cost decreased by 89.8% to CNY 168 million in the third quarter from CNY 1.7 billion a year ago, mainly due to the higher base in the third quarter last year, which included 1.3 billion of C-round restructuring expense. Additionally, our effective tax rate decreased to 31% during the third quarter of 2021 from 40% in the same period of 2020.

Consequently, our net income increased by 90.8% to CNY 4.1 billion during the third quarter from CNY 2.2 billion in the same quarter of 2020. Excluding the impact of the C-round restructuring expenses in the comparable quarter, adjusted net income increased by 18.1% year-over-year. Net margin was 25.8% in the quarter compared to a net margin of 16.5% and adjusted net margin of 26.6% in the same period of last year.

Meanwhile, our basic and diluted earnings per ADS were RMB 1.76 and RMB 1.66, respectively. As of September 30, 2021, we had a cash balance of CNY 30.5 billion compared to CNY 24.1 billion as of December 31, 2020. Net cash flow from operating activities was CNY 1.7 billion in the third quarter of 2021.

Now -- turning now to the outlook. We reiterate our guidance for the full year of 2021. We expect our new loans facilitated to be in the range of CNY 649 billion to CNY 665 billion, the client assets to be in the range of CNY 430 billion to CNY 450 billion. Meanwhile, as we continued our efforts to maintain growth momentum and continue improving our operating efficiency, we expect our total income to be in the range of CNY 61.1 billion to CNY 61.4 billion, and our net profit to be in the range of CNY 16.3 billion to CNY 16.5 billion.

This translates into year-over-year total income growth of 17% to 18% and year-over-year net profit growth of 33% to 34% for the full year of 2021. These forecasts reflect our current and preliminary views on the market and operational conditions, which are subject to change. This concludes our prepared remarks for today. Operator, we're now ready to take questions.

Question and Answer

Operator

[Operator Instructions] Your first question comes from Richard Xu from MS.

Ran Xu
Morgan Stanley, Research Division

Congratulations for the strong third quarter. Just have a couple of questions on the funding part at the moment. One is basically, are we seeing opportunity to further reduce the funding costs or basically the yield from the funding partners that we work with at the moment since we're expanding our cooperation population. And in addition to that, are we seeing these banks are taking more risk on their own. So what percentage of risks are taken directly by the banks at the moment.

Yong Suk Cho
Co-CEO & Director

Okay. The proceeds of our funding costs how much risk is there. As of today, we have 59 partner banks and 6 trust companies. And then in terms of mix, bank funding takes about 60% and then 40% are from trust at different funding cost. . So going forward, we believe -- later we can discuss about take rate this year and next year.

We believe we have more room in funding costs to further decrease and safeguard our take rate on the decreasing APR environment. As of today, if you look at our third quarter number, our sales guarantee portion, it takes up to 20%. And then our dependence on insurance companies, especially Ping An P&C, it went down 70%. Sothe rest of about 10% are taken by partner bank and also insurance companies together.

Operator

Your next question comes from Winnie Wu from BofA.

Yi Wu
BofA Securities, Research Division

Hello?

Gregory Dean Gibb
Co-CEO & Director

Winnie, go ahead.

Yi Wu
BofA Securities, Research Division

Okay. Yes. So I want to ask a high-level question regarding how does management think about the difference between the credit assistant lending model versus the co-lending model. I mean, apparently, regulators have made pretty strict rules regarding the co-lending model, right, the risk sharing, the percentage funding sharing which is more capital intensive.

But in fact, essentially, the way Lufax has been complying with the regulation, you are taking more risk because you are putting on long-term balance sheet, and you do have the capital to be fully compliant. Whereas on the other side, the socalled assistant lending model has -- is facing more regulatory uncertainty regarding the license requirement regarding the disconnection from the banks. So strategically, how do you compare the pros and cons of those 2 business models? And where do you see Lufax business model evolving over time?

Gregory Dean Gibb
Co-CEO & Director

Thanks, Winnie, it's Greg. I'll take a first shot at your question and then to see if Y.S. has anything to add. I think that the way the regulators increasingly look at this is really in 2 buckets, right? There's loans done by banks and then everything else is really regarded as a form of facilitation and cooperation.

And I think that under the bucket facilitation and cooperation, and there's been some recent announcements in the last couple of days about Ant's requirements in terms of how they partner with banks. The core of this is really that you have the skin in the game. And we have done it at 20% up to now, but we'll probably be moving to 30% over the next 12 to 18 months.

And so that skin in the game is robust and very much in line with the overall steered regulation. The second is that when you take this skin in the game, you need to have a license that is regulated and where capital leverage is controlled within 10x. And so we do that through our guarantee company.

Our leverage today on those guaranteed companies is under 3x. And so we're very well positioned to handle all of that. I think the other thing I would just highlight is that if you look at the requirements that have been announced around -- and over the last couple of days, they now have to split the lending they do through their consumer finance company and they're partnering with banks, and it has to be separately branded. We are already compliant with that requirement in that our consumer finance business is separately branded.

And when customers process a loan through our facilitation, the banks themselves are disclosed. And then each bank carries out its own risk process to prove the lender. So we think that we're unique in having that guarantee company in really taking shared risk on every loan and bringing that to 30% and then having the capital behind it and then in disclosing our bank partners in the process.

And I think it will be -- honestly, it's going to be difficult for some players in the market to really meet those capital requirements going forward. So I don't think there's that much of a distinction between co-lending and facilitation. The real issue is having that capital to back up risk sharing. Y.S., anything to add?

Yong Suk Cho
Co-CEO & Director

I think -- technically speaking, like, we are not co-lending for sure. All funds comes from bank or some trust companies. And then we are not the -- either because we are financing guarantee license company. And so the way we do it is property with our financing guarantee license is core. But neither is -- how do we -- we don't think regulator, they clearly separate co-lending and then assistance lending. We believe going forward, one part is -- one regulation will apply to all different model of loan services, including a assistance lending and also co-lending and other pure presentation, right, only effect the bank loan, which they pay all functional loans by themselves from savings underwriting collection.

In our case, so our future model, I think we already -- we already have a clear mindset in discussion with regulators. So going forward, we take all loan funds with -- that come from banks and trust companies. We don't provide any fund, but we are only taking 30% credit risk and then the rest 70% eventually be taken by fund providers, but it will take some time to reach that point. So as a bridge, we use our insurance partners. So eventually as a player, if you ask me what is our future model, clearly spend, all funds come from bank first, the risk sharing 30% by us and all the rest 70% are taken from the partners.

Operator

Your next question comes from May Yan from UBS.

Meizhi Yan
UBS Investment Bank, Research Division

Can you hear me?

Gregory Dean Gibb
Co-CEO & Director

Yes. Go ahead, May.

Meizhi Yan
UBS Investment Bank, Research Division

Okay. Okay. Maybe I'll follow up on Winnie's earlier question, still about regulation. So the CBIRC, the bank regulator have said that they -- or PBOC as well, they were separate, make clear boundary between financial services, the lending technology services and credit scoring.

So it looks like it's maybe targeting to have first -- each operator should have certain type of licenses that will allow you to do this -- to be engaged in such activities. And then secondly, to source split or separate the whole -- the operation current loan facilitation model, which covers the whole of the business chain.

So does that mean that in the end, so the service part, the technology service part will be segregated out of the lending and also maybe guarantee as well. So -- because is that being technically happening in how you can conduct your lending or the whole loan facilitation on business. I don't know if I'm clear or not on that question.

And then also earlier mentioned that by March, we will be connected to the credit -- some kind of credit scoring services and paying a small fee of about less than RMB 100,000 per month. I just want to confirm that, so you already -- is there a guidance that the loan facilitation companies or Lufax need to do so and to which credit scoring sort of the agencies.

And then also, sorry, on the operating front, we saw 59 insurance groups, the sales force has quite a lot of turnover and has -- sales force has declined a lot that -- has that impacted through your customer acquisition, selling by their sales force, et cetera? By the way, it's very good, very strong third quarter results and also great to hear about the dividend payout. Congratulations.

Yong Suk Cho
Co-CEO & Director

Thank you, May. So let me start from the back. The live agents, number of life agents has been declined from 1 million now reached about 70,000, right? Then that initially it affects our business growth, that's true. If you look at our -- the sales channel mix. Last year they used to contribute about almost 40%

But if you look at third quarter this year number, they now contribute only 28% of total loans. So now we have a lot less dependence on live channels. Why? Our direct sales, own our sales force, their sales contribution increased up to more than 50% by now. And other -- this year, again -- we get the last year contribution, while the absolute sales contribution amount will decrease further, we think so. But we are late because even if they decreased a little bit from that 28% contribution, our contribution from direct sales, that part our annual growth is almost 20%.

So that is enough, more than enough to cover the shortfall from live agent channel. re. We have direct sales full capacity ratio. This full capacity ratio was less than 90% in the second quarter. But this quarter, it's already 100%.. We started putting more investment on this developing and expecting and cascading our higher performance director. And now we see an interest in that and then we have full capacity ratio.

So I think that means that we are very much confident despite live channel decline further next year, and overall, we can deliver steady sales growth. And then second question was about credit scores, right? That we are in close discussion with PBOC directly. And then we build our process in detail. If I make quarter numbers, normally we share with banks about 300 data for one customer.

And as PBOC said, out of -- in that about 80 data basically must go through the company who had credit license. So that process, now we are working with. And as Greg said, these new process will be in place by March next year. The early comments from PBOC is June 2023. So we will be ready or ahead of PBOC requirement.

And then so that doesn't mean the business expense will increase. We estimate the cost total is RMB60,000 or 70,000 per month which is very much minimal. So it doesn't mean pay out in this process. It doesn't offset our previous profitability.

Gregory Dean Gibb
Co-CEO & Director

And so maybe to go to the top end of your question, the way that Lufax Holdings is set up is that each business line is very clearly segregated, very clearly segregated in terms of operation, technology stack, people, corporate governance, et cetera.

So we are already very clearly split by business line. The lending business is also very clearly split in its enablement to partner banks and trust companies and that is really where we process the flow of borrowers that is done through our technology platform. And it passes all of the data, as Y.S. just mentioned, to our banks and trust partners for their separate decision-making.

All of our process there does not touch upon a payments license which I think was one of the more major focus areas for Ant, which is really to separate payments and lending. Our lending is entirely separate in that regard. But the other thing I want to highlight is that no matter what your business model is, this requirement by regulators to have skin in the game, that part of it must be licensed.

And so we do that through our guarantee company in terms of being able to provide that skin in the game. So I think as you look down the path of regulation, your processes in terms of where you're partnering with institutions on the technology side have to be clear and separate from other services. You have to have requisite licenses to do that. And then in the corporate governance, you have to have separation in that setup, which we have today. May, just to double check that we've answered your questions.

Meizhi Yan
UBS Investment Bank, Research Division

Can I follow up? Follow-up on that. If the -- I guess, the edge for Lufax business model is having the guaranteed side of the business, which is licensed and in the intention of the Central Bank and CBIRC is to have all the information flow into the credit scoring agencies and that can be used and shared with other financial institutions, et cetera. Then within other loan facilitation companies or Internet technology companies, they can also have the guarantee -- try to get guarantee license and then they can sort of kind of avoid the credit scoring, extending data to the scoring agencies, too, right? So I understand it may take some time for them to get the guarantee license, but that could also be a way to avoid the regulation, right?

Gregory Dean Gibb
Co-CEO & Director

A lot of interaction with regulators is that the core principle of data eventually being shared through the rating licenses as Y.S. just said, right? In our case, 80 of the 300 variables that we share with banks need to go through that license. I think that's going to be true no matter what your business model is, right?

The second thing that we believe is that no matter what your business model is co-lending facilitation or other definition, you'll have to have an entity that can bear that capital. I think what I would highlight is other people can get guaranteed licenses. It does take time.

But I think the more important thing is if you look through the regulation. What they're looking to prevent is instances where platforms are providing a lot of guarantees beyond what's just indicated in the license. What they're going to do is really look through the total loans that you help facilitate that you are really bearing risk on 30% of that and that you then have capital to back up that 30%, right?

We can't be under the table or side agreements or anything else, which doesn't fully disclose that capital requirement. So I think that's the core direction. And I think that where we are unique is having those licenses in place, having the national coverage and having more than enough capital to meet those requirements today.

Operator

Your final question comes from Hans Fan from CLSA.

Hans Fan
CLSA Limited, Research Division

Sure. And congratulations again for the decent results. I have 2 questions. I think first one is also regarding the regulatory trends. as you probably recall back in July, Mr. Hu, Mr. Zhao from the consumer protecting bureau of CDIC once mentioned that the platform companies charge too much profit from the loan facilitation. So what's your view on that? Is that means that potentially, CBIRC really care about the net margin of Lufax. Do we see any sort of pressure on the regulatory side in the coming years in terms of squeezing our net margin?

I think that's the first question. Second one is more on the operating side regarding RCS. Because the loan growth in third quarter was quite strong. And also, we mentioned that the sales productivity was getting better. So here, I just want to check what's your view regarding the loan demand despite of the economic slowing down. What you see loan demand for our SME customers? And what we have done in terms of -- to promote the productivity of the direct sales team? And how can we reduce the sales commission rates, as we mentioned in the announcement. Yes, so that's pretty much about the -- my questions.

Yong Suk Cho
Co-CEO & Director

Okay, let me -- I will take the first question later The above supplement from global team -- actually, we don't have any concern because he's a person who provided window guidance for Lufax in the last 3 years. So our rectification products in terms price decrease inviting more insurance partners are all following his window guidance.

So we haven't got any thought instruction from -- and the once he said that the total fee charged by Lufax, including guarantee fee, service fee should be less than 5.5% of loan amount, that sellers loan amount, which we already got hit last year. So since then, we haven't got any further instruction or demand from -- or other partners which we got, so we don't have any concern.

And then second question about the RCS loan demand and then -- this year, if you look at year-on-year number if I'm not wrong, sales grew by 16% and balance grew by 20% so I think loan demand is truly there, is very strong. I think this is, thanks to our unique positioning because providing consistent loan service for small and micro business owners in this sector, we don't see really many other players there. So we have huge demand, and then we can select the customer we want. So loan demand-wise we don't have any concern. And talking about sales, our main focus is gradually leading, therefore, how we can provide more technology tools to support direct sales. And then also, if you understand our direct sales mix, 10% of high-performing direct sales, they contribute almost 40% of total new ones. And then on that part from fourth quarter, we launched a new direct sales management strategy. So we hire and then train and quick base high performing directors more.

So I think those, the high potential sales force, we provide high fixed salary, but a low commission in the first 5 months, so that they can come and settle with time. And then -- senior managers we provide yearly bonus based on current loan balance. So this year, if you look at the sales market, actually total expense didn't increase at all plus from fourth quarter, we added a little bit more. And next year, I don't think we have a room to reduce sales commission or reduce unit margins I think overall, because our debt -- we have to guarantee, we have to make sure that our sales force are very competitive and they are very well rewarded but we see more in funding cost and the C-round premium.

I this those -- I believe the more to say. So in the third quarter this year, our average loan price for total loans are about 23% Our plan for the next phase -- we don't need to dramatically and quickly use price for that -- we don't need, but we gradually very slowly reduced together with funding costs and costoptimization. So we can safeguard our take rate and net margin.

So next year in overall, the price decrease will be very minimal, and then our take rate, net margin will be perfectly, I think.

Guangheng Ji
Chairman of the Board & Chairman of Executive Committee

[Foreign Language]

Yu Chen
Head of Board Office & Capital Markets

[Interpreted] So one quick summary of the translation, which Chairman Ji just said basically 3 points to summarize. Number one, we're fully aligned with the regulatory and the overall society's intention to lower funding costs for small business owners, those who are uttermost by technology, efficient improvement, risk management better negotiations with funding partners to lower our cost components to achieve that.

Second point, I believe the lowering of our funding cost for the society is going to take some time to achieve. It's not something that can be solved overnight. It requires all participants to work together to achieve that. And obviously, we are part of that. And thirdly, so far, there are no specific requirements on the exact number or timing from the regulators on us. But obviously, we do have internal targets. We fully understand the future direction, and we have internal targets to lower to a profit level at the right time. Is there any other questions?

Operator

There are no further questions at this time.

Yu Chen
Head of Board Office & Capital Markets

Okay. Thank you, operator. Thanks, everyone, for listening to our earnings call.
[Portions of this transcript that are marked [Interpreted] were spoken by an interpreter present on the live call.]