

## **Announcement on Responding to Shanghai Stock Exchange's Regulatory Letter in Relation to Information Disclosure in 2020 Annual Report of the Company**

30 April 2021

On 14 April 2021, the Company received Shanghai Stock Exchange's Regulatory Letter in Relation to Information Disclosure in 2020 Annual Report of China Minsheng Banking Corporation Limited (Shang Zheng Gong Han [2021] No. 0321) (the "Regulatory Letter"), requiring the Company to make written response to it and fulfill the information disclosure obligation. After receiving the Regulatory Letter, the Company actively organized the relevant departments to check and explain the questions one by one. The Company hereby replies to the relevant questions mentioned in the Regulatory Letter and announces as follows:

### **I. About Credit Assets**

**Question 1: The annual report shows that the net profit attributable to equity shareholders of the Company for 2020 was RMB34.309 billion, representing a year-on-year decrease of 36.25%. One of the main reasons was the accelerated disposal of non-performing assets. During the reporting period, credit impairment losses amounted to RMB92.988 billion, representing a year-on-year increase of 48.05%. Of which, impairment losses on loans was RMB76.990 billion, with a year-on-year increase of 26.52%, and the write-offs and transfer-out loans amounted to RMB67.110 billion, representing a year-on-year increase of 31.77%. As at the end of the reporting period, the non-performing loan (the "NPL") ratio was 1.82%, representing a year-on-year increase of 0.26 percentage points. Please make supplementary explanations as follows: 1. Give the reasons for the significant increase of NPL ratio, and explain whether the criteria for identifying NPLs have changed significantly, based on the changes in the ratio of loans overdue for more than 90 days to NPLs; 2. Describe whether the credit impairment loss of a single customer's credit asset reached 10% of the most recent audited net profit during the reporting period.**

**[Reply]**

**1. Give the reasons for the significant increase of NPL ratio, and explain whether the criteria for identifying NPLs have changed significantly, based on the changes in the ratio of loans overdue for more than 90 days to NPLs.**

1) Reasons for the increase of NPL ratio as at the end of 2020

Against the backdrop of the impact of COVID-19 and the severe and complex economic situation in 2020, the Bank strictly implemented the standards for classification of loan risks and actively consolidated asset quality. As at 31 December 2020, the NPL ratio of the Bank was 1.82%, up by 0.26 percentage points from the

beginning of the year. The reasons for the increase of the NPL ratio include the following two aspects:

Firstly, the Company resolutely implemented the regulatory rules and strictly enforced classification standards.

In compliance with Article 11 of the Guidelines for the Classification of Loan Risks, "The following loans shall be classified as substandard at least: (1) Overdue (including after extension) for more than a certain period, and the interest receivable is no longer recorded in the current profit or loss", and Article 15 "The number of overdue days is an important reference indicator for classification, commercial banks shall tighten the management of loan maturity", and other relevant requirements, the Bank has basically met the classification standards to downgrade the loans overdue for more than 90 days to NPLs, and continuously controlled the ratio of loans overdue for more than 90 days to NPLs within 100% since 2019.

In 2020, the Bank implemented the regulatory guiding opinions and further downgraded loans overdue for more than 60 days but within 90 days to NPLs in principle, based on the downgrade of loans overdue for more than 90 days to NPLs. For some loans that were not yet due or overdue for less than 60 days but showed certain characteristics of risk exposure due to the impact of COVID-19, the Bank also downgraded such loans to NPLs in a timely manner in strict compliance with the core definition of the five-grade classification of loans to strictly meet the existing risk classification standards.

Secondly, the COVID-19 had great impacts on asset qualities of certain industries and businesses.

The growth of corporate NPLs mainly concentrated in the key industries that were greatly affected by COVID-19. As a result, corporate NPLs of the Bank increased in 2020, which mainly concentrated in three industries heavily affected by the pandemic, namely: transportation, warehousing and postal service, wholesale and retail, and mining. The NPLs in the three industries increased by RMB10.606 billion in total, accounting for 103% of total increase of corporate NPLs. With the gradual bettering of the situation of the pandemic both at home and abroad, as well as the full resumption of work and production in China and other favorable factors, the overall operation of the foregoing three industries has gradually recovered and the situation tended to be stabilized. It is expected that their asset quality will become steady in 2021.

Unit: RMB100 million

Industry	31 December 2020		31 December 2019		Year-on-year change	
	Total	NPL ratio	Total NPLs	NPL ratio	Total NPLs	NPL ratio

	<b>NPLs</b>					<b>(Percentage points)</b>
Transportation, warehousing and postal service	44.11	4.11%	10.66	1.38%	33.45	2.73
Wholesale and retail	60.36	3.54%	37.57	2.11%	22.79	1.43
Mining	86.92	8.33%	37.1	3.37%	49.82	4.96
<b>Subtotal</b>	<b>191.39</b>		<b>85.33</b>		<b>106.06</b>	

Except for the foregoing three industries, corporate loans of the Bank to other industries maintained stable or improving asset quality, benefiting from the adjustment and optimization of customer structure and business structure in recent years. Apart from the above three industries, the outstanding balance of loans of the Bank to other industries accounted for 82.97%, balance of NPLs decreased by RMB300 million from the beginning of the year, and the average NPL ratio was 1.04% with a decrease of 0.11 percentage points from the beginning of the year, showing stable and improving asset quality.

The growth of retail NPLs mainly concentrated in credit card business. Affected by COVID-19, willingness and repayment ability of some of the credit card customers of the Bank declined, resulting in notable increase of NPLs in credit card business. As at the end of 2020, the outstanding balance of credit card NPLs of the Bank was RMB15.18 billion, up by RMB4.123 billion from the beginning of the year. With the gradual recovery of the domestic economy, it is expected that the growth of credit card NPLs will stabilize in 2021.

Except for credit card business, the total NPLs in other retail businesses such as small business loans, housing mortgages, and comprehensive consumer loans increased by RMB1.19 billion from the beginning of the year, with a NPL ratio of 1.42% that decreased by 0.14 percentage points from the beginning of the year, indicating a stable asset quality.

2) Explain whether the criteria for identifying NPLs have changed significantly, based on the changes in the ratio of loans overdue for more than 90 days to NPLs.

The Bank carries out loan risk classification in strict compliance with the Guidelines for Classification of Loan Risks (Yin Jian Fa [2007] No. 54), Measures on Classification of Small Business Loan Risks (Provisional) (Yin Jian Fa [2007] No. 63) and other regulatory and internal regulations, and continuously strengthens the management of authenticity, timeliness, importance and prudence of risk classification. When classifying loans, the Bank takes the assessment on the borrower's repayment ability as the core, and comprehensively considers the

borrower's repayment record, willingness to repay, project profitability, loan guarantee and other factors. Risk classification standards of the Bank for 2020 did not change significantly from the previous year, but were implemented in a more prudent and stricter manner.

Firstly, the Bank continued to recognize the loans overdue for more than 90 days as NPLs. As at the end of 2020, the ratio of loans overdue for more than 90 days to NPLs was 73.88%, down by 14.12 percentage points from the end of 2019.

Unit: RMB100 million

Category	End of 2020	End of 2019	Year-on-year change
Balance of loans overdue for more than 90 days	517.50	479.04	38.46
Balance of NPLs	700.49	544.34	156.15
Balance of loans overdue for more than 90 days/balance of NPLs	73.88%	88.00%	-14.12 percentage points

Secondly, the future impact of COVID-19 was fully considered in the risk classification of loans overdue within 90 days and loans not overdue. Among them, the loans overdue for more than 60 days but within 90 days were downgraded to NPLs in principle. Meanwhile, for some loans that were not yet due or overdue for less than 60 days but showed certain characteristics of risk exposure due to the impact of COVID-19, the Bank also downgraded such loans to NPLs in a timely manner in strict accordance with the core definition of the five-grade classification of loans to strictly implement the existing risk classification standards.

**2. Describe whether the credit impairment loss of a single customer's credit asset reached 10% of the most recent audited net profit during the reporting period.**

During the reporting period, there was no such situation that the credit impairment loss of a single customer's credit asset reached 10% of the most recent audited net profit.

**Question 2: The annual report shows that the migration rate of special-mentioned loans of the Company reached 30.60% during the reporting period, that of substandard loans reached 89.49%, and that of doubtful loans reached 56.75%, representing large increases over the previous period. Please: 1. Give the reasons for the large downward migrations of special-mentioned loans, substandard loans, and doubtful loans in 2020; 2. Give the main reasons for the**

**large increase in the allowance for impairment of write-off and transfer-out loans in 2020, and specify the relevant basis and standards.**

**[Reply]**

**1. Give the reasons for the large downward migrations of special-mentioned loans, substandard loans, and doubtful loans in 2020.**

The Bank calculates the "loan migration rate" in accordance with the Core Indicators for Risk Supervision of Commercial Banks (Provisional) issued by the China Banking and Insurance Regulatory Commission with the following formula:

loan migration rate = downward migrated loan amount / (loan balance at the beginning of the period - decreased loan amount in the current period).

According to the formula, the loan migration rate is collectively affected by the loan balance at the beginning of the period, the decreased loan amount in the current period and the downward migrated loan amount.

1) Reasons for the downward migration of special-mentioned loans and the increase in migration rate

In 2020, the downward migration amount of special-mentioned loans of the Bank saw a year-on-year increase of RMB10.536 billion, mainly attributable to that in the background of COVID-19 impact and the complex economic situation, the Bank strictly implemented the loan risk classification standards and strengthened risk classification management to truly and dynamically reflect loan quality.

The main reasons for the significant increase in the migration rate of special-mentioned loans as compared with the previous period were: As at the beginning of 2020, the amount of migration from special-mentioned loans to NPLs increased by RMB10.536 billion year-on-year, representing a raised numerator of migration rate of special-mentioned loans. At the same time, the Bank strengthened early risk defusing measures and intensified collection and elimination of overdue and special-mentioned loans. The difference between the balance of special-mentioned loans as at the beginning of 2020 and the reduced amount of special-mentioned loans in the current period decreased by RMB2.707 billion as compared with 2019, representing a dropping denominator of the migration rate of special-mentioned loans.

2) Reasons for the downward migration of substandard loans and the increase in migration rate

In 2020, the downward migration amount of substandard loans of the Bank saw a year-on-year increase of RMB1.15 billion. The main reasons were that the Bank

strengthened its management of NPLs, continuously tracked the changes in its actual risks, and downgraded substandard loans that further deteriorated to doubtful and loss loans.

The main reasons for the significant increase in the migration rate of substandard loans as compared with the previous period were: As at the beginning of 2020, the downward migration amount of substandard loans increased by RMB1.150 billion year-on-year, representing a raised numerator of migration rate of substandard loans. At the same time, the Bank intensified disposal of NPLs in 2020. The difference between the balance of substandard loans as at the beginning of 2020 and the reduced amount of substandard loans in current the period decreased by RMB6.065 billion as compared with 2019, representing a dropped denominator of the migration rate of substandard loans.

3) Reasons for the downward migration of doubtful loans and the increase in migration rate

In 2020, the downward migration amount of doubtful loans of the Bank saw a year-on-year increase of RMB1.788 billion. The main reasons were that the Bank strengthened its management of NPLs, continuously tracked the changes in its actual risks, and downgraded doubtful loans that further deteriorated to loss loans.

The main reason for the significant increase in migration rate of doubtful loans as compared with the previous period was: As at the beginning of 2020, the downward migration amount of doubtful loans increased by RMB1.788 billion year-on-year, representing a raised numerator of the migration rate of doubtful loans.

## **2. Give the main reasons for the large increase in the allowance for impairment of write-off and transfer-out loans in 2020, and specify the relevant basis and standards.**

1) Basis and standards for the allowance for impairment of write-off and transfer-out loans

Regarding the allowance for impairment of loan write-offs, in accordance with the Administrative Measures on Write-off of Bad Debts of Financial Enterprises (2017 Edition) (Cai Jin [2017] No. 90) of the Ministry of Finance, the Bank prepares full allowance for impairment of NPLs that meet the standards for recognition of bad debts, and offsets the allowance for impairment of assets upon write-offs.

Regarding the allowance for impairment of transferred-out loans, in accordance with the laws and rules including the Administrative Measures on Batch Transfer of Non-Performing Assets of Financial Enterprises, Due Diligence Guidelines on Disposal of Non-Performing Financial Assets, as well as the relevant policies of the

Bank, the Bank transfers non-performing assets to the third party at fair price on a legal, compliant and voluntary basis, and transfers out the allowance for impairment (that is, the difference between the principal of the non-performing assets and the transfer consideration after deducting the advance payment).

2) Main reasons for the large increase in the allowance for impairment of write-off and transfer-out loans in 2020

In 2020, due to the impact of COVID-19 and the severe and complex economic situation, the pressure of downward asset quality increased. In this background, the Bank consolidated asset quality and intensified the disposal of NPLs. The year-on-year increases in NPL disposed through transfer (including securitization of non-performing assets) and disposal losses were relatively high, resulting in a large increase in the allowance for impairment of write-off and transfer-out loans.

In 2020, the allowance for impairment of write-off and transfer-out NPLs of the Bank totaled RMB67.110 billion, up by RMB16.180 billion year-on-year, with the details as follows:

Unit: RMB100 million

Category	2020	2019	Year-on-year change
<b>NPLs disposed through write-offs/disposal losses</b>	362.59	348.29	14.31
<b>NPLs disposed through transfer</b>	432.89	212.57	220.32
Of which: disposal losses	273.70	118.08	155.62
<b>NPLs disposed through debt repayment</b>	52.89	117.39	-64.50
Of which: disposal losses	34.81	42.94	-8.13
<b>Total allowance for impairment of write-off and transfer-out loans</b>	<b>671.10</b>	<b>509.30</b>	<b>161.80</b>

The scale of NPLs disposed through write-offs and transfers of the Bank in 2020 expanded significantly from the previous year, resulting in an increase in the allowance for impairment of write-off and transfer-out loans. In 2020, the Bank disposed RMB43.289 billion NPLs by transfers, up by RMB22.032 billion year-on-year, which brought a disposal loss of RMB27.370 billion, up by RMB15.562 billion year-on-year. The Bank disposed RMB36.259 billion NPLs by write-offs, up by RMB1.431 billion year-on-year.

**Question 3: The annual report shows that as at the end of the reporting period, total loans to related parties of the Company amounted to RMB68.201 billion. As at 31 December 2020, no credit impairment was identified among the**

**above-mentioned loans. Please explain whether the Company has made sufficient allowance for the impairment of the foregoing related party loans, and specify the relevant regulations of the accounting standards and the solvency and financial status of the foregoing related parties.**

**[Reply]**

### **1. Relevant regulations on the allowance for impairment of the Bank**

In accordance with the application guidelines of the Accounting Standards for Business Enterprises No. 22 - Recognition and Measurement of Financial Instruments, companies may classify the process of credit impairment of financial instruments by three stages, and adopt different accounting treatments for the impairment of financial instruments at different stages: At stage 1, where the credit risk has not increased significantly since the initial recognition, the allowance for losses is measured according to the estimated credit loss in the coming 12 months; at stage 2, where the credit risk has increased significantly since the initial recognition but no credit impairment has occurred, the allowance for losses is measured according to the estimated credit loss during the entire lifetime of the instrument; at stage 3, where credit impairment occurs after initial recognition credit risk, the allowance for losses is measured according to the estimated credit loss during the entire lifetime of the instrument.

Adopted the new financial instrument standards in 2018, the Bank has always implemented the above-mentioned methods to make allowance for impairment based on estimated credit losses. The specific methods are as follows:

1) Based on whether the risk has significant increased, all financial assets that need the allowance for impairment are classified by three stages. Based on the factors such as number of overdue days, risk classification, probability of default (PD), etc., combined with qualitative and quantitative judgments, all financial assets are classified as: stage 1, where the credit risk has not increased significantly since initial recognition; stage 2, where the credit risk has increased significantly since initial recognition but no credit impairment has occurred; and stage 3, where there are objective evidences showing that credit impairment has occurred. For financial assets at stage 1, the Bank measures the impairment according to the estimated credit loss in the coming 12 months. For financial assets at stage 2 and stage 3, the Bank measures impairment according to the estimated credit losses during the entire lifetime.

2) The Bank estimates PD and loss given default (LGD) with reference to the internal rating system. In accordance with the implementation requirements of the internal rating approach of the measures on capital management, the Bank has established an internal rating system covering corporate, financial institutions and retail businesses, and realized the estimation of PD and LGD of a single business. At the same time, in



accordance with the management requirements on internal rating verification, the Bank goes through independent verification by the verification team before launching the rating model, and monitors its performance on a quarterly basis after the launch, to continuously optimize the rating system.

3) The Bank adopts corresponding methods to make allowance for impairment of assets at different stages. For retail financial assets and non-retail financial assets of stage 1 and stage 2, the Bank adopts the risk parameter method and measures the final impairment results according to the weighted average of the three scenarios, including optimism, benchmark and pessimism, based on such risk parameters as PD, LGD and others estimated by internal rating, after making forward-looking adjustments to reflect the macroeconomic impact. For non-retail financial assets of stage 3, the Bank adopts discounted cash flow method and makes allowance for impairment based on estimated cash flow recovery. The specific formula for allowance for impairment based on risk parameter method is as follows:

Estimated credit loss = (scenario 1 weight × PD 1 after forward-looking adjustment + scenario 2 weight × PD 2 after forward-looking adjustment + scenario 3 weight × PD 3 after forward-looking adjustment) × LGD × default risk exposure

## **2. Related party loans and the allowance for impairment**

As at the end of 2020, balance of loans to related parties of the Bank was RMB68.201 billion and balance of allowance for impairment of loans was RMB435 million, with an average impairment allowance ratio of 0.64%. Among them, the balance of related party loans to corporate legal persons recorded RMB55.867 billion, accounting for 81.9%, with impaired loan balance of RMB434 million; the balance of related party loans to financial institutions recorded RMB11.5 billion, accounting for 16.9%, with impaired loan balance of 0, which was mainly because these loans were pledged by 100% inter-bank deposit certificates, and the LGD estimated by the internal rating system was 0; the balance of related party loans to individuals recorded RMB834 million, accounting for 1.2%, with impaired loan balance of RMB1 million.

From the perspective of PD, the overall operations of the related parties of the Bank maintained relatively stable in 2020. However, certain business segments (such as real estate) of some related party enterprises were impacted by COVID-19 and other external factors. As at the end of 2020, loans to related parties of the Bank of RMB68.198 billion were not overdue in the Bank, the risk classification were normal, and the credit ratings had no significant change since the initial recognition of loan risks, so they were classified as stage 1; personal loans of RMB3 million were classified as stage 2 as the PD estimated by the internal model calculation exceeded 20%. The Bank strictly implemented the requirements of the accounting standards and adopted the risk parameter method to make allowances for impairments of stage 1

assets according to future 12-month estimated credit losses and for stage 2 assets according to lifetime estimated credit losses.

From the perspective of LGD, in the loans to related parties of the Bank, those mainly secured with collateral amounted to RMB8.777 billion in total, accounting for 12.9%; those mainly secured with pledge amounted to RMB41.633 billion, accounting for 61%; total loans secured with collateral and pledge accounted for 73.9%. The remaining RMB17.791 billion loans were mainly secured with guarantee, accounting for 26.1%. Generally speaking, loans to related parties of the Bank were secured with strong guarantees of collateral and pledge with good relief of loan risks. The LGD based on model calculation has not changed obviously.

In conclusion, based on its judgment of risk condition of the corresponding financial assets at the time of making allowance, the Bank calculated impairment in a prudent manner according to the accounting standards and regulatory policies and made allowances in line with the model calculation results.

Subsequently, the Bank will continue to track related information such as the solvency and financial status of related party customers, update key risk factors in a timely manner, and dynamically update the allowances for impairment in line with the changes of risk factors.

## **II. About Financial Investment Assets**

**Question 4: The annual report shows that the impairment losses on financial investments of the Company (including existing assets of the non-principal-guaranteed wealth management products in the balance sheet) in 2020 was RMB10.884 billion, representing a significant year-on-year increase of RMB10.25 billion. Of which, the loss of financial assets at amortized cost was RMB9.684 billion, and the loss of financial assets at fair value through other comprehensive income was RMB1.2 billion. Please: 1. List the corresponding impairment losses according to the types of financial investment products. For those with a year-on-year increase of more than 30% over 2019, please give specific reasons for the large impairment losses in 2020; 2. Explain whether the relevant policies for the allowance for impairment of financial assets in the current period were consistent with those for the previous period, and whether the allowance for the previous period was insufficient.**

**[Reply]**

**1. List the corresponding impairment losses according to the types of financial investment products. For those with a year-on-year increase of more than 30% over 2019, please give specific reasons for the large impairment losses in 2020.**

As at the end of 2020, impairment losses of the Bank listed by types of financial investment products are shown in the table below. The loss of financial assets at amortized cost was RMB9.684 billion, with product types of trust and asset management plans and bond investments, of which, the allowance for impairment losses on trust and asset management plans was RMB8.761 billion, up by RMB8.531 billion, or over 30%, from 2019. The loss of financial assets at fair value through other comprehensive income was RMB1.2 billion, up by RMB1.614 billion, or over 30%, from 2019, with product type of bond investments.

Unit: RMB100 million

<b>Financial investment assets</b>	<b>Type</b>	<b>Impairment loss in 2020</b>	<b>Impairment loss in 2019</b>	<b>Changes in impairment loss from 2019</b>	<b>Ratio of changes in impairment loss from 2019</b>
Financial assets at amortized cost	Trust and asset management plans	87.61	2.3	85.31	3709.13%
Financial assets at amortized cost	Bonds	9.23	8.18	1.05	12.84%
Financial assets at fair value through other comprehensive income	Bonds	12.00	-4.14	16.14	-389.86%
<b>Total</b>		<b>108.84</b>	<b>6.34</b>	<b>102.50</b>	<b>1616.72%</b>

1) Reasons for the large impairment losses on financial assets at amortized cost -trust and asset management plans in 2020

In accordance with the new asset management regulations and the requirements for accelerating the disposal of existing assets of wealth-management products issued by the regulatory authorities in September 2020, the Bank included some wealth management products and other off-balance sheet assets back into the balance sheet in accordance with the relevant regulations in 2020 and carried out strict risk classification on the non-performing assets therein, resulting in an increase in overall non-performing assets. In 2020, non-performing assets of RMB12.38 billion among off-balance sheet debt assets of the Bank, such as wealth management products, were included back into the balance sheet.

At the same time, due to the impact of COVID-19 and the complex economic situation, the credit risk exposure of non-performing assets has accelerated, and the

corresponding impairment losses increased significantly. In accordance with the requirements of the Accounting Standards for Business Enterprises No. 22 - Recognition and Measurement of Financial Instruments (Cai Kuai [2017] No. 7) issued by the Ministry of Finance, the Bank made allowance for impairment losses based on the model of estimated credit losses for financial assets at amortized costs. Of which, the Bank managed all non-performing assets as stage 3 assets, and calculated the estimated future recoverable cash flow by using discounted cash flow method case by case, to objectively reflect the proportion of impairment losses, which resulted in RMB9.129 billion allowance for impairment losses in 2020. At the same time, due to the reversal of RMB368 million impairment losses in the assets of stage 1 and stage 2, the final allowance for impairment losses of financial assets at amortized costs -- trust and asset management plans amounted to RMB8.761 billion.

2) Reasons for the large impairment loss on financial assets at fair value through other comprehensive income -- bond investments in 2020

In accordance with the requirements of the Accounting Standards for Business Enterprises No. 22 - Recognition and Measurement of Financial Instruments (Cai Kuai [2017] No. 7) issued by the Ministry of Finance, the allowance for impairment losses is made based on the model of estimated credit losses for financial assets at fair value through other comprehensive income.

In 2020, the scale of bond investment assets of the Bank increased, and the allowance for impairment losses of bond investment assets at stage 1 and stage 2 was RMB329 million. At the same time, the Bank continuously strengthened the management of risk classification of financial assets, classified all RMB1.707 billion bond investments of sharp price drops and with default by the issuer in the open market in 2020 into stage 3 assets, and made RMB871 million allowance for the impairment of bond investment assets at stage 3 in compliance with the accounting standards.

**2. Explain whether the relevant policies for the allowance for impairment of financial assets in the current period were consistent with those for the previous period, and whether the allowance for the previous period was insufficient.**

In accordance with the requirements of the Accounting Standards for Business Enterprises No. 22 - Recognition and Measurement of Financial Instruments (Cai Kuai [2017] No. 7) issued by the Ministry of Finance, the Bank implements the new financial instrument standards. For non-retail financial assets of stage 1 and stage 2, the Bank adopts the risk parameter method and measures the final impairment results according to the weighted average of the three scenarios, including optimism, benchmark and pessimism, based on such risk parameters as PD, LGD and others estimated by internal rating, after making forward-looking adjustments to reflect the macroeconomic impact. For non-retail financial assets of stage 3, the Bank adopts

discounted cash flow method and makes allowance for impairment based on estimated cash flow recovery.

The method of making allowance for impairment of financial assets of the Bank in 2020 was consistent with that for the previous period, where the above method was also used for the allowance for impairment of financial assets in a prudent manner, along with risk classification based on the then risk conditions of the relevant financial assets.

### **III. About Operating Performance**

**Question 5: The annual report shows that the quarterly operating incomes of the Company in 2020 were RMB49.3 billion, RMB48.8 billion, RMB45.2 billion and RMB41.6 billion, and the quarterly net profits attributable to equity shareholders of the Company were RMB16.7 billion, RMB11.8 billion, RMB8.9 billion and -RMB3 billion. Please: (1) Give the main reasons for the quarterly declines in operating income and net profit in 2020, and explain the rationality of this trend based on the macroeconomic environment and the situation of other companies in the industry; (2) Give the main reasons for the loss in the fourth quarter of 2020, and fully remind the risks whether the foregoing factors may continuously affect the operating performance in 2021.**

**[Reply]**

**1. Give the main reason for the quarterly declines in operating income and net profit in 2020, and explain the rationality of this trend based on the macroeconomic environment and the situation of other companies in the industry.**

1) Trend of quarterly changes in operating income

In 2020, under the impact of COVID-19, the banking industry faced severe pressures and challenges, and the operating incomes of the banking industry generally showed a quarterly downward trend. The Bank implemented the decisions and deployments of the CPC Central Committee and the State Council, actively responded to the impact of COVID-19 and the market volatility, fully supported the development of the real economy, and further reduced fees and surcharges to non-state-owned enterprises, small and micro enterprises and credit card customers. At the same time, the Bank strictly implemented various regulatory requirements, proactively accelerated the adjustment of business structure. The impacts of internal and external operating conditions brought great pressure to the continued growth of operating income of the Bank, and led to quarterly declines, but the profitability of core businesses remained stable, with a net interest margin of 2.14% for 2020, which was flat with 2019. The main reasons affecting the decline in income are as follows:

Firstly, the Bank resolutely implemented the requirements of regulatory policies and tightened business compliance management. In 2020, the regulatory authorities further strengthened the inspection and punishment on shadow banking and financial "deleveraging". In accordance with the relevant regulatory policies and rectification requirements, the Bank significantly reduced the scale of non-standard asset investments, among which, non-principal-guaranteed wealth management, bill asset management and inter-bank investment in corporate credit assets were respectively reduced by RMB159.536 billion, RMB71.829 billion and RMB34.468 billion, leading to high then low investment returns with declines from quarter to quarter.

Secondly, the "capital bonus" generated by the loose monetary policy during COVID-19 did not continue. During the outbreak of COVID-19 in early 2020, the capital side was generally loose and the market capital prices were at historically low. The Bank realized bond spreads and fund investment income of RMB3.451 billion and RMB1.296 billion in the first and second quarter respectively. In the second half of the year, the market capital prices stabilized after rebounding from the low level, leaving little room for bond spreads, and the paper profit of investment valuation also gradually retreated with the rebound of interest rates of funds in the market. In the third and fourth quarter, the Bank realized bond spreads and fund investment income of RMB191 million and RMB811 million, representing significant drops from the first half of the year.

Thirdly, the Bank actively responded to the national calls to reduce fees and surcharges to support the real economy. To alleviate the impact of COVID-19 and support the resumption of work and production, the central bank vigorously promoted LPR to guide asset-side pricing to gradually decline. It also implemented the policy requirements of inclusive finance to extend the repayment period as longer as possible, to guide the real economy to reduce financing costs. In 2020, on the one hand, the Bank accelerated the LPR pricing conversion of existing loans. When the LPR was reduced by a cumulative amount of 30BP, the Bank further lowered interest rates for newly issued RMB loans on a quarterly basis, being 5.69%, 5.46%, 5.36% and 5.10% for the four quarters, with a cumulative decrease of 59BP. In particular, the pricing level of loans to medium and small, and small and micro enterprises decreased significantly and the total yields of small business loans dropped by 67BP year-on-year. On the other hand, the Bank proactively reduced and exempted fees and interests for small and micro customers, as well as credit card customers, with an amount of RMB1.522 billion in the second half of the year, up by 68.2% as compared with RMB0.905 billion in the first half of the year.

Fourthly, the Bank consolidated asset quality and intensified the disposal of non-performing assets. In 2020, the Bank conducted a thorough investigation on the risk profile of its existing assets, coordinated the preparation of disposal plans for

non-performing assets and enhanced the recovery and disposal of existing problem assets and non-performing assets on a quarterly basis.

## 2) Trend of quarterly changes in net profit

In 2020, in response to the changes in the external environment, the banking industry generally adopted forward-looking measures, increased allowance for impairment losses on assets and enhanced disposal of non-performing assets, which impacted profits. In particular, the growth of net profit of joint-stock banks significantly decreased as compared with 2019. Affected by multiple factors including quarterly declined operating incomes, business and management expenses and progress in making allowance for impairment losses on assets, the net profit attributable to equity shareholders of the Bank showed a quarterly downward trend.

## **2. Give the main reasons for the loss in the fourth quarter of 2020, and fully remind the risks whether the foregoing factors may continuously affect the operating performance in 2021.**

### 1) Main reasons for the loss in the fourth quarter of 2020

Loss of the Bank in the fourth quarter of 2020 was mainly due to the combined impacts of multiple factors including progress in making allowance for impairment losses on assets, quarterly declined incomes from non-standard investments and other non-core businesses and decrease in bond spreads and fund investment income as a result of market fluctuation.

In the fourth quarter of 2020, affected by the impairment model adjustment and asset transfer progress, the Bank recorded an asset impairment loss of RMB30.634 billion, up by RMB10.574 billion from the third quarter. Of which, at the end of the year, in accordance with the requirements of the new financial instrument standards, the Bank updated the PD forward-looking adjustment model based on macroeconomic forecasts and made an additional allowance for impairment losses on assets of RMB2.551 billion, an allowance for non-credit assets of RMB6.169 billion, up by RMB1.768 billion from the third quarter, which was mainly used in the increased provision of the back-to-balance sheet arrangement of wealth management assets and other aspects, as well as an allowance for loans of RMB21.914 billion, up by RMB6.255 billion from the third quarter, which was mainly used in the disposal of NPLs and others.

### 2) Effect of the foregoing factors on the operating performance in 2021

In 2020, the Bank proactively implemented regulatory requirements and significantly reduced the investment scale of non-standard assets, while accelerating the inclusion of wealth management assets back into the balance sheet according to the new asset management regulation, and promoting the clearing of relevant business risks. With

great efforts to overcome the impact of various unfavorable factors in both internal and external operating environment, the Bank maintained stable year-on-year growth of its operating income throughout the year. In 2021, the Bank will continue to promote the transformation of business model, bring its business operation back to basics, work hard to develop customer base, focus on fundamental businesses and continue to optimize asset and liability structure. The effectiveness of business transformation is expected to appear gradually, allowing the Bank to further achieve healthy and sustainable development on a stable and compliant track.

**Board of Directors**  
**China Minsheng Banking Corporation Limited**

(Please note that this is the English translation of the announcement in Chinese. Should there be any discrepancy between the English translation and the Chinese version, the Chinese version prevails.)