

Transcript of Q&A Session of
2021 Annual Results Announcement Meeting of
China Minsheng Bank
(Compiled based on recording)

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Meeting form: Live streaming

Participants of China Minsheng Bank: Chairman GAO Yingxin, Vice Chairman and President ZHENG Wanchun, Independent Non-Executive Director LI Hancheng (participated online), Executive Director and Executive Vice President YUAN Guijun, Executive Vice President SHI Jie, Executive Vice President LI Bin, Executive Vice President LIN Yunshan, Executive Vice President HU Qinghua, Board Secretary BAI Dan and Chief Information Officer ZHANG Bin

External participants: 10,550 attendances in cumulative terms including investors, analysts and media reporters

I. Chairman GAO Yingxin introduced the achievements of reform and transformation and future core competitiveness

Firstly, thank you for attending the Annual Results Announcement Meeting of China Minsheng Bank (hereinafter referred to as the Bank). Today's event witnesses the presence of numerous participants online, fully demonstrating the attention and care of analysts, investors, the media community and people from all societies to the Bank. In the past two years, we have adopted diversified forms to communicate with investors, and people from all societies have paid high attention to the measures taken by us for reform and transformation as well as the achievements. You have already had a general idea after watching today's result announcement video. I will give a

supplementary report on the achievements of reform and transformation made by China Minsheng Bank.

In 2021, the Board of Directors of China Minsheng Bank formulated the Five-Year Development Plan (2021-2025) of China Minsheng Bank after fully investigating, discussing and analysing its problems. As a distinctive joint-stock commercial bank in China, China Minsheng Bank needs to remain true to its original aspiration of becoming “**a bank for the non-state-owned enterprises (NSOEs)**”, and become ecosystems and strategic partners of each other with strategic customers and attract each other’s customers. On this basis, we have expanded the content of serving the NSOEs to serving numerous medium, small and micro enterprises and individual customers, hence becoming a host bank for the medium, small and micro enterprises. For this purpose, the Board of Directors proposed to develop China Minsheng Bank into “**an agile and open bank**” and “**a bank with considerate services**”, and therefore established the new strategic positioning of the Bank.

Centring on the new strategy, we defined the years from 2020 to 2022 as a period for foundation consolidation and business adjustment. At this stage, on one hand, we aimed to further consolidate asset quality and speed up the disposal of non-performing assets and problem assets left over by history; on the other hand, we aimed to speed up structural adjustment, and proactively promote the optimisation of development strategy, business operation strategy and business structure. We are hoping to realise a healthier, steadier and more sustainable development based on efforts in this period.

Centring on the new strategy, we have done a lot to proactively advance reform and transformation. Measures were mainly taken in six major aspects, including transformation of operation philosophy, promotion of digital transformation, proactive adjustment of business structure, advancement of HR management reform and organisation efficiency improvement, optimisation of business mode, and reforms of resource allocation and incentive and constraint mechanism.

Firstly, we transformed operation philosophy. To begin with, we gave greater importance to enhancing the “customer-centric” service philosophy, and advocated

considerate services for customers, creation of value for customers, and achievement of common growth with customers, so as to win the trust and affirmation of customers. To this end, we devoted more energy to consolidate the capability of long-term services, drew attention back to basic customers, basic products and basic service capability, paid more attention to payment, settlement, account-opening and other basic services, and put efforts in improving efficiency and convenience, hence improving customer satisfaction with ultimate customer experience. Moreover, we no longer merely pursued for the expansion of asset size, but attached more importance to structural optimisation, and laid emphasis on balancing various indicators such as size, quality and safety.

Secondly, we promoted digital transformation. We take digital transformation as a key move to promote transformation and development, and formulated the new implementation plan for the digital transformation after carefully summing up and analysing the development status quo, problems, and pros and cons of digital finance, and strive to developing the Bank into “an agile and open bank”. This cannot stay at the levels of technology, system and instrument, instead, this shall be rooted in an agile and open, innovative and integrated structure and culture, start from the full journey of customers in production and life, promote innovation in business models, optimise customer experience, and truly achieve customer empowerment.

The newly-established Digital Finance Innovation Department of the Bank adopted the whole-new agile operation mode, transformed from “product-centric” to “customer-centric”, and made innovation in services, thereby developing ultimate experience for customers. Meanwhile, by centring on the upstream and downstream industry chains of core strategic customers, we sped up the ecosystem-based business arrangements, and provided one-stop and all-round services for medium, small and micro enterprises on the industry chains via our online smart risk control mode. At present, our digital finance innovation has achieved satisfying breakthroughs in building customer base and constructing business scenarios. Additionally, we also fully developed smart banking and worked for the smart regeneration of traditional

bank under the dual drivers of “technology + data”.

Thirdly, we proactively adjusted business structure. We carried out “addition” and “subtraction” of businesses, of which, “subtraction” mainly involved the resolute reduction of shadow banking businesses, reduction of structured deposits and strict control of high-risk businesses. Although proactive “subtraction” brought certain pressure to our short-term revenue and profit growth, it is beneficial for long-term steady development. “Addition” mainly involved proactively serving the national strategies, strengthening innovation in financial products and service modes, and increasing credit placement in green finance, inclusive finance, rural revitalisation, the manufacturing industry and the major regions. Through adjusting business structure, we have seen an evident improvement in core liabilities, more stable and better asset quality, effective improvement in risk management, and notably enhanced compliance awareness across the Bank.

Fourthly, we advanced HR management reform and organisation efficiency improvement. We put great efforts in this aspect in an aim to stimulate the productivity and creativity of employees and to release the vitality of talents. In 2021, we cut more than 20% of divisions at the head office level to significantly enhance organisational efficiency, promoted a group of young, vigorous and responsible talents; and launched a professional job sequence reform to diversify talent growth channel, which enabled professional talents to achieve career development while enjoying fame and gain and taking responsibilities. We also encouraged every business line and every business unit to deeply promote the cultivation and incentive of young employees, and improve young talents cultivation system. Through a series of reforms, we have gradually formed a competitive remuneration system.

Fifthly, we optimised business modes. We resolutely take retail business as the basic one, and conducted the systematic optimisation and adjustment of organisational structure, and clearly defined responsibilities and optimised efficiency in customer relation management, product development, wealth management and the integration of online and offline channels. Furthermore, we reformed the corporate business

marketing system, and set up strategic clients departments at the head office and tier-one branches, realising the unified marketing, risk control and services for strategic customers, and highlighting comprehensive services, business chain-based development, coordinated marketing and professional empowerment. The marketing system reform helped change our previous fragmented and separate services of the head office and branches, and achieve higher-level customer services coordinated by the head office and branches. In addition, the marketing and management systems for financial institution customers were also reformed by referring to the mode of strategic customers.

Sixthly, we reformed the resource allocation and incentive and constraint mechanism. To match up with the above mentioned reforms, we launched major reform in resource allocation and evaluation method, shifted the previous short-term and one-sided incentive and evaluation mode to a long-term, steady, comprehensive and balanced evaluation one, and transformed the previous bank-centric status which unilaterally pursued for revenue and profit while neglecting customer values and demands. By virtue of the new evaluation mode, we have guided the head office and branches as well as business lines to provide customers with high-quality and efficient services in a coordinated and consistent manner.

Finally, the implementation results of any strategy ultimately depends on the following key points. The first is the transformation of corporate culture. Currently, we have formed a clean and upright, practical and entrepreneurial cultural atmosphere. The second is implementation. From the Board of Directors, the Senior Management to grass-roots employees, the problem feedback and solving mechanism is under optimisation, and the procedures and systems are continuously improved. The third is refined management. All strategies should specify procedures, systems and management modes, so as to spur everyone at the Bank to focus on customer demands, customers' problems and every detail of services, and finally gain market recognition, customers' affirmation and employees' satisfaction.

II. Q&As

[Q1] What about the risk exposure and risk profile of the real estate business of China Minsheng Bank? What risk control measures have been taken? The regulatory attitude towards the real estate industry in China has changed to some extent in 2022. How do you respond to it and what will you do to real estate business?

Executive Vice President SHI Jie:

In view of the profound adjustment of the real estate industry since 2021, China Minsheng Bank has proactively responded to it by optimising customer and business structures, enhancing centralised management, strengthening process control of projects funded, adopting “one account one policy”, optimising new projects and stabilising existing ones, thus maintaining the steady development of the real estate business. Firstly, I will report the developments of corporate real estate business.

As at the end of 2021, the balance of corporate real estate credit of China Minsheng Bank amounted to RMB473.444 billion (standard of the Group), down by RMB116.947 billion, or 19.81%, from the beginning of the year. The balance of real estate-related businesses, including net-value wealth management, entrusted loans, agency trust, and underwriting of debt financing instruments, etc, totaled RMB87.585 billion, down by RMB27.046 billion, or 23.59%, from the beginning of the year.

In the corporate real estate credit, the balance of real estate loans amounted to RMB360.302 billion, down by RMB78.798 billion, or 17.95%, from the beginning of the year. The balance of off-balance sheet businesses, bond investments and non-standard debt investments of corporate real estate business amounted to RMB113.142 billion, down by RMB38.149 billion, or 25.22%, from the beginning of the year, of which, the balance of investment in unsecured real estate bonds amounted to RMB8.261 billion (standard of the Group), and the bond issuers were mainly central and state-owned enterprises as well as real estate enterprises with steady operations.

The on- and off-balance sheet businesses of the Bank adopted the same access

standards, while the access requirements for underlying asset customers and projects were managed in reference to on-balance sheet business. The operations of the real estate wealth management and agency sales business, which have been closely followed by the market recently, are as follows:

(I) The balance of net-value real estate wealth management business amounted to RMB40.373 billion, mainly investing in standardised securities, such as housing mortgage backed securities (MBS) and commercial mortgage backed securities (CMBS).

(II) The balance of real estate agency sales business amounted to RMB9.556 billion, all corresponding to specific projects.

Secondly, I will mainly introduce the basic status of corporate real estate loans. As at the end of 2021, the balance of corporate real estate loans of the Bank amounted to RMB360.302 billion. The business had the following features:

(I) Projects focused: The corporate real estate loans of the Bank mainly included real estate development loan, M&A loan and urban renewal loan, all of which were based on specific projects and had direct sources of repayment.

(II) Business distribution: This mainly included marketable housing development projects, with a small proportion of commercial real estate and other non-marketable real estate.

(III) Geographical distribution: The Bank conducted strict regional access management of corporate real estate loans. The total proportion of corporate real estate loans in the Greater Bay Area, Yangtze River Delta, Chengdu-Chongqing and the Beijing-Tianjin-Hebei was 68%; other projects were mainly distributed in provincial capitals, municipalities with independent planning status and other regions.

(IV) Guarantee modes: Lands and projects under construction were taken as main pledges. In the meantime, equities of the borrowers were also added, and with joint and several liability guarantees provided by their groups.

Thirdly, I will report the risk profile of real estate loans and risk control measures taken by the Bank.

Since the second half of 2021, the risks of the real estate industry accumulated in the early stage have begun to appear due to the impacts of multiple factors, and some highly leveraged real estate enterprises have been subject to capital chain issues. As a result, the asset quality of the Bank's real estate business came under pressure. As at the end of 2021, the balance of non-performing corporate real estate loans amounted to RMB9.574 billion, up RMB6.534 billion from the beginning of the year, and the NPL ratio reached 2.66%, up 1.97 percentage points from the beginning of the year. The rising NPL volume and ratio conform to the status quo that the real estate industry is under periodic adjustment.

As for the classification of risks in corporate real estate loans, we prudently judged the risk profile of each account as per the status of specific projects and dynamically adjusted the classification results according core definitions of risk classifications. We prudently conducted depreciation measurement and calculation according to the requirements of accounting standards and regulatory rules and provided full allowance for impairment, so as to objectively reflect asset quality.

We adopted differentiated management and control strategies for different real estate customers:

(I) As for the high-quality projects of high-quality customers, we increased support to improve product competitiveness, and proactively made preservation and placement to expand the proportion of businesses of high-quality customers.

(II) As for the projects normally developed, constructed and sold in existing businesses, we enhanced fund management and control, implemented regulatory measures, and collected funds based on the sales of the projects for gradual repayment of loans.

(III) As for those projects with potential risks, firstly, we maintained active communication with customers to replenish repayment sources, add mortgage, pledge and other guarantees; secondly, we enhanced project management and control, and adopted joint management of official seals, financial seals and the original and copies of business licenses regarding some major projects; thirdly, we introduced in partners

based on project conditions to promote project transfer or subcontract construction; as for customers with continuously worsening operation, we formulated and implemented risk exit plans.

Currently, the real estate industry is still at the stage of risk release, and the real estate policies are adjusted gradually. More efforts are being taken to safeguard stability, and it takes time to improve the market sales expectation. The corporate real estate business of the Bank focuses on housing project financing, with full and effective pledge and mortgage measures in place. We have also implemented control plans for every account and project. All in all, the Bank's risks of real estate business are generally within control.

Fourthly, I will briefly introduce the strategies for real estate business for the next step.

In 2022, China Minsheng Bank will continue to pay high attention to risk prevention in real estate field, strictly implement regulatory requirements, adhere to the positioning of "houses are for living in, not for speculation", enrich cooperative products by classes and segments according to the general principles of "stabilising total quantity, adjusting structure, enhancing management and controlling risks", in an aim to ensure steady increase in project financing, and proactively carry out the businesses of affordable rental housing loans and M&A loans. We will improve operation efficiency, increase business reserves and placements, and optimise customer and business structure. We will conduct strict access management, enhance post-loan monitoring, and take multiple measures to maintain the steady development of the real estate business of the Bank.

[Q2] What are the specific reasons for the decrease in operating income in 2021 from the previous year? The business environment of banks is still full of uncertainties in 2022, with weak credit demands. What are your considerations about loan arrangement? How will you improve performance?

Executive Vice President LI Bin:

I. Reasons for the decrease in operating income in 2021

In 2021, the operating income of the Bank decreased by RMB16.5 billion from the previous year. The main reasons are as follows:

(I) Continuous reduction of non-standard investment. In 2021, the daily average scale of trust and asset management plans, wealth management products and other non-standard investments decreased by RMB245.9 billion YoY. Corresponding interest income and non-interest income decreased by RMB5.486 billion and RMB6.525 billion, respectively, representing a combined decrease of about RMB12 billion, taking a major part in the RMB16.5 billion decrease in the year-round operating income. This showed that the reduction of these assets affected the operating income, of which, non-interest income decreased by RMB6.525 billion, which was the main reason for the 14.62% decrease YoY in non-interest income of the Bank in 2021 .

(II) Adjustment of loan structure. The Bank increased credit placement to high rating customers, bringing certain impacts on loan returns but also reducing credit risks. In addition, the corporate real estate loans decreased by RMB78.8 billion from the end of the previous year, accounting for 8.9% of total loans, down by 2.5 percentage points from the end of the previous year. The decrease in high-yield loans affected the interest income.

(III) Adjustment of bond investment structure. We increased the allocation of national and local government bonds with stronger liquidity, and also reduced the size of ABS and corporate bonds with higher return ratio and also higher risks. The investment in corporate bonds decreased by RMB22.8 billion, or 5.8%, from the end of the previous year.

(IV) Implementation of the national policy of fee reductions to support the real economy and reduce the financing costs of customers. In 2021, we continued to increase support for small and medium-sized enterprises (SMEs), small businesses

and inclusive finance customers, and the financing costs of customers demonstrated a decreasing trend.

These are the major reasons affecting the operating income. It can be found that although the operating income decreased in 2021, the credit risk management has been enhanced.

II. Development trend in 2022

As what you said just now, the business environment of banks is full of uncertainties in 2022, with weak credit demands and intensifying competition for high-quality credit assets among banks. Meanwhile, we also see that new infrastructure construction, new consumption and strategic emerging industries embrace major development opportunities. In view of the challenges and opportunities, we will take measures to promote the growth of total volume and optimise structure of our loans. In this year, under the precondition that the capital adequacy ratio meets internal and external management requirements, we will continue to promote the steady growth of loans to improve the proportion of loans in interest-earning assets. We also will increase loans to medium, small and micro enterprises, improve the proportion of contribution of supply chain-based financial products, and incline resources to major fields including green credit, high-end manufacturing and sci-tech innovation.

In 2022, we will continue to speed up reform and transformation as introduced by the Chairman just now. The key is to consolidate customer base, and optimise product and service capability so as to achieve growth in deposits and loans, structure optimisation and scientific pricing, elevate the proportion of basic businesses, and increase net interest income. In the meantime, by strengthening customer relationship management, we will expand the size of assets of customers under management, and promote the rapid growth of incomes from settlement, agency, custody and other intermediate businesses. We will start with these aspects to improve our business performance.

[Q3] The market pays high attention to the asset quality of China Minsheng Bank. How was the asset quality in 2021? In which industries did the newly-increased NPLs concentrate, and what were the reasons therefor? What measures did the Bank take to improve asset quality? After the large-scale disposal of NPLs over the past two years, what is the overall situation of the Bank's NPLs?

Executive Vice President YUAN Guijun:

In 2021, Minsheng Bank actively responded to the internal and external changes, and strengthened internal risk control and management. As a result, the quality of assets witnessed improvement with stability, and various indicators improved from 2020.

Now I would like to brief you on the industries where NPLs increased in 2021, and the relevant reasons.

In terms of distribution of business segments, the newly-increased NPLs mainly came from corporate business in 2021. As at the end of 2021, the NPLs of corporate business amounted to RMB43,667 million, up by RMB4,983 million from the end of the previous year. The asset quality of retail business (including credit card) remained stable and tended to get better, and the NPLs as at the end of the year amounted to RMB28,671 million, down by RMB2,694 million from the end of the previous year.

In terms of distribution of industries, the growth of NPLs of corporate business mainly concentrated in two industries, namely the real estate industry and the information transmission, software and IT services industry. Of which, the NPLs in the real estate industry increased by RMB6,534 million from the beginning of the year, which was mainly caused by the rising overall risk of the real estate industry. The NPLs in the information transmission, software and IT services industry increased by RMB3,080 million from the beginning of the year, mainly due to the downgrading of a major customer. The NPLs in the above-mentioned two industries increased by RMB9,614 million in total, accounting for 193% of the total increase of NPLs of

corporate business. The NPLs of corporate business in other industries decreased by RMB4,631 million from the end of the previous year, and the quality of assets remained stable or tended to get better.

In 2021, in order to effectively prevent and control new risks, we took seven measures to improve asset quality, from the aspects of policy, mechanism, layout, management, personnel, and system regarding internal risk control:

Firstly, we built the internal risk control system of “four bridges and eight pillars”, which has been explained in detail in the Annual Report. We adopted a new concept of “internal risk control is the core competitiveness” and developed a new internal risk control mechanism of “one core”, “two systems”, “three-pronged approaches”, and “four bridges and eight pillars” in a systemic way of thinking.

(I) In strengthening “one core”, we comprehensively enhanced the internal risk control and management by the Party committees, and pushed the Party committees at all levels to assume the primary responsibilities for internal risk control and management.

(II) We established the “two systems” by taking online intelligent risk control system as the baseplate and offline complete policy system as the support. We established and implemented the policy system integrating the major decisions and arrangements of the CPC Central Committee, laws and regulations, regulatory requirements with the realities of Minsheng Bank. We improved the top-level policy design of risk preference and risk management, introduced special credit policies for SMEs and the credit policies for the “four major areas”, and strengthened the policy support for credit to inclusive finance, green credit, advanced manufacturing, rural revitalisation and other fields. Meanwhile, we properly raised the basic access standards for government-credit platforms, real estate and other fields. Additionally, we planned and implemented the forward-looking and open intelligent risk control system of “four levels and four ends” at the group level.

(III) We adopted the “three-pronged approaches”, namely putting people, businesses and funds under control, focusing on enforcing accountability, managing behaviors, preventing legal cases and strengthening trainings, as well as reinforcing the management before, during and after events, to continuously push forward the long-term risk management.

(IV) We established “four bridges and eight pillars” to identify the key nodes and weak links in internal risk control and compliance management from the aspects of framework, policy, process, system, personnel, execution, supervision and culture, and thus established a positive cycle featuring comprehensive examination, three-dimensional evaluation, long-term rectification, and assigned responsibilities for prudent operation and risk control at all levels.

Secondly, we continuously optimised and adjusted credit deployment and asset structure. We formulated the development strategies for key regions, and inclined credit placement to four key regions, namely Guangdong-Hong Kong-Macao Greater Bay Area, Yangtze River Delta, Beijing-Tianjin-Hebei, and Chengdu-Chongqing. In connection to the industry layout, we continued to intensify the support for advanced manufacturing, inclusive finance, green credit, rural revitalisation and other national strategic fields and key areas.

Thirdly, we reshaped our policy systems across-the-board and tackled weakness to facilitate development. We followed the “system first” norm, restructured the credit management system, formulated or revised 274 credit systems and abolished 242 systems throughout the year, so as to reduce shortcomings and standardise business development. We also compiled the first Credit Manual and the Special Assets Manual to specify management standards and improve the systematicness and convenience of execution.

Fourthly, we reformed the credit approval system to ensure the professionalism and dedication of the approval link. In line with the five principles of “professionalism and dedication, efficient process, openness and coordination, authority with corresponding responsibility, and independent decision-making”, we launched the reform of credit approval mechanism of corporate customers, improving approval professionalism and independence. In the meantime, we unified the approval standards throughout the Bank, canceled the mode of single person approval, thus addressing some issues of single person approval in the past.

Fifthly, we enhanced the capabilities of monitoring, early-warning and execution, and proactively exited from businesses with risky customers. We comprehensively optimised the construction of monitoring and early-warning rules, procedures and IT systems throughout the Bank, and achieved around-the-clock, all-round and penetrating dynamic monitoring and supervision on various assets, leaving no

potential risk unaddressed. Moreover, we strengthened the execution of exiting from businesses with risky customers, and achieved early-warning, early investigation, early exit and rapid exit.

Sixthly, we enhanced credit risk prevention and control in major fields, and prudently guarded against systemic risks. With regard to the real estate business, we adopted stricter unified group credit management and approval of new credit based on the general principle of “making access stricter, optimising structure, strengthening management and improving quality”, enhanced the adjustment of existing customer structure, and rigorously controlled newly-increased loan businesses with the financing platforms of local governments.

Seventhly, we enhanced the accountability identification on non-performing assets and the management and control of staff behaviour across the board, and cultivated a risk compliance culture of stable operation. We established the mechanism of bringing-forward accountability identification on non-performing assets, under which responsible persons for non-performing assets would have to leave away from their job positions to make collections. We issued 150 prohibitive regulations on business to standardise staff behaviour, carried out normalised monitoring of abnormal behaviour, intensified accountability of irregular behaviours, and gradually formed the tough stance of “full coverage, zero restricted areas and zero tolerance”.

As for the NPLs in this year, a downward trend of the formation rate of NPLs has shaped in general under the condition of defusing existing NPLs and controlling new NPLs. It is expected that the overall asset quality will improve continuously on the basis of stable performance, the NPL ratio will decrease steadily, and the allowance to NPLs will increase in stability in 2022.

In 2022, we will continuously improve asset quality by system and mechanism-based means. Three tasks will be focused to improve the asset quality: the first is to control the two ends. At the front end, we will deepen reform on the credit approval system to effectively improve the quality of new assets. At the back end, we will better the asset preservation system, and establish and improve the non-performing asset preservation system to resolve existing risks. The second is to

strengthen the intermediate stage management. we will continue to optimise the post-loan (investment) management mechanism and further improve the systems of risk prevention, early-warning, handling and accountability to guard the bottom line of risks and comprehensively improve the quality and efficiency of risk management. The third is to strengthen compliance management by carrying out the event of “the year of internal risk control and compliance improvement”, promoting effective rectification of issues repeatedly identified in the inspections, focusing on the management of behaviour of staff on important credit posts, and improving the accountability identification system of non-performing assets.

[Q4] Currently, commercial banks attach great importance to the development of retail business, and constantly upgrade products and services to provide better customer experience. What are the goals and strategies of China Minsheng Bank in retail business? What are the advantages and development potential of China Minsheng Bank in products and customers groups?

Executive Vice President LIN Yunshan:

I. Development goals and strategies

In terms of development goals, we will implement the core strategies on retail business in the five-year development plan, focus on in-depth operation of segmented customer groups, enrich the product and service system, leverage technologies to empower digital transformation, solidify retail finance, and enhance brand value.

We strive to achieve the scaled growth of general public customer groups and the explosive growth of private banking customer group. We will improve the frequency of connection, contact and interaction with customers and better customer experience. In terms of structure, we attach great importance to deposit cost reduction and optimisation of the structure of wealth management products. We strive to make the indicators, including user conversion rate, number of customers attracted from strategic customers, active customer growth, proportion of high-capacity outlets,

increase by 15% YoY. It's expected that the healthy and sustainable growth of retail operating income will be realised with new philosophies, new modes and new connotations.

II. Advantages and competitiveness obtained in 2021

(I) We have expanded in the segmented areas, and established a new brand of private banking and wealth management featuring stability. In addition to accelerating the development of traditional banking wealth management, in 2021, we also focused on promoting the development of public funds, including the series of “Minsheng Bedrock”, FOF, and “Minsheng Wisdom”. In 2021, the size of existing public funds was RMB172 billion, up by 41% from the end of the previous year. The size of existing series of “Minsheng Bedrock”, a benchmark brand, was RMB64.5 billion, up by 146% from the end of the previous year. Up to now, the market share of our FOF products has been ranking the first.

(II) We have shaped up our competitive edges in basic products and services and optimisation of business processes. Among them, we improved the service efficiency of individual card-opening and contracting by 40%, and maintained the card-opening and contracting rate of basic products at 70%. The electronic payment transaction volume exceeded RMB500 billion, up by 32% YoY, and the number of transactions increased by 28% YoY. After a year of hard work, we have completed the upgrading of the customer benefit system, and became one of the first batch of banks that provided “Cross-Border Wealth Management Connect” service and maintained a quite high market share.

(III) The effect of high quality customer acquisition has gradually come into the view. In 2021, we acquired 4.44 million new customers (excluding pure credit card customers), contributing a YoY increase in financial assets of RMB20.4 billion. The number of VIP customers amounted to 3.446 million, up by 10.4%. What's more delightful is that we have developed segmented customer groups based on 10 major scenarios including car owners, parent-children services and business travelers, etc.

(IV) Retail asset quality, especially retail loan quality

1. The total volume increased steadily and the structure was constantly optimised. The total volume of retail loans and credit card overdrafts was RMB1,748 billion with a net increase of RMB155.8 billion in 2021. Among them, mortgage loans increased by RMB80.6 billion, up by 15.8%. In total retail assets, the proportion of mortgage loans increased from 32% to 34%, that of credit card business decreased from 29% to 27%, and that of non-mortgage consumer loans decreased from 7% to 5%.

2. We adjusted the selection and management of key customer groups based on external environment. We attached greater value to customers with stable consumption in credit card business, including the target customer groups of the Millennial generation, female and highly educated customers, as well as customers with settlement scenarios. The proportion of customers with stable consumption reached 88%, up by 2.4 percentage points from the previous year. For mortgage loans, we attached more significance to the stability of first repayment source of house buyers. For non-mortgage consumption loans, we strengthened the cross-selling to high quality units and existing high quality customers, and achieved good customer acquisition performance in the year.

3. Asset quality of retail loans. Just now, EVP YUAN talked about some general numbers. In terms of structure, the mortgage loan projects in core cities took a share of 55.72%, and the projects developed by central enterprises and state-owned enterprises took a share of 10% and 8%, respectively. The NPL ratio of mortgage loans was 0.26%, which was at a relatively low level among peers. Although under pressure at the present, we still have the confidence to control and manage the NPLs.

III. Development strategies of the retail business in 2022

(I) Main business line: Accelerating the growth of basic customer groups, managing well the upgrading of customers with high values, and constantly deepening the segmented management and improvement of customers with high values.

1. Accelerating the growth of basic customer groups. We will improve the internal coordinated customer acquisition capacity of payroll agency, credit card, consumer loans and outlet ecosystems. Meanwhile, we will promote the cooperation with external ecosystems such as UnionPay ecosystem, top internet platforms, shared economy, property management platform projects and electronic accounts, as well as Wechat official accounts for customer acquisition.

2. Deepening professional management of segmented customer groups. We will comprehensively speed up standardised management of private banking centres, and explore new growth modes of private banking customer groups with family trust as a breakthrough. We hope that private banking customers can increase in 2022 with a breakthrough development.

(II) Layout of key businesses

1. Wealth management. We will continue to enrich products for wealth management and private banking customer groups, upgrade the three major fund brands including “Bedrock”, FOF and “Minsheng Wisdom” launched in the second half of 2021, improve the shelf of private fund products, leverage the advantages of the fund business in long- and short- term layouts, and strengthen the customisation of insurance products to improve the insurance coverage rate of key customer groups.

2. Core deposits. We will enhance marketing on the principal accounts. We will guide inputs to pan-payment and settlement business to increase total number of customers and trading vitality through flow conversion, customer referral, and benefit platforms. We will recommend key customers groups to set their account in our Bank as the principal payment account, so as to expand the sources of demand deposits.

3. Retail asset business. We will expand asset business volume mainly by consumer loans and credit card business. Firstly, we will strengthen the coordination and synergy with our real estate department and implement the project risk investigation mechanism to steadily promote the development of mortgage business and improve the contribution of mortgage customer groups. Secondly, we will

enhance the marketing of non-mortgage consumer loans by focusing on existing high quality customer groups and customer groups with growth potential, and pushing forward targeted online marketing based on the white list. Thirdly, we will strengthen credit card motivation for improvement by optimising customer activity facilitation strategies and differentiated pricing strategies for the installment business, and increase annual fee income by providing customers with benefit packages.

4. Payment and benefits. We will further deepen the strategic cooperation with UnionPay, improve the service capacity of payment scenarios, and develop an ecosystem connecting merchants, suppliers and customers in business circles. We will speed up in-depth application of the benefit system in classified and differentiated management of retail customer groups, improve customer contributions and loyalty by leveraging abundant and quality benefits and good customer experience to promote customer activity and increase customer stickiness.

(III) Two focuses of development

1. The first is to adhere to professionalism and systematic development. We will solidify the basic service system by carrying out integrated upgrading of service outlets and iterating processes and experiences of online stores, online card issuance and lobby services to create accompanied service journey. Focusing on the five systems of retail compliance, monitoring and early-warning of retail credit, intelligent decision-making, intelligent risk control of wealth management business and new professional consumer right protection, we will build the solid first line of defense for retail quality control.

We strive to unleash the productivity of our teams. We will complete the construction of Wealth Management 3.0 system in this year and step towards Wealth Management 4.0, accelerate standardised construction and integration of professional teams, enhance the cultivation of core professional talents, and solidify the system guarantee for marketing cases replication and promotion.

2. Digital support. We will implement an agile digital transformation project for reshaping end-to-end retail customer journeys. We will build an experience management pyramid supported by digital technologies, carry out the key and featured journeys including payroll agency and the use of benefits, and realise digital technology empowerment in the three levels of visions and goals, journey diagnosis and reshaping, and monitoring systems and digital platforms.

We will upgrade the data-based marketing and operation platforms by improving the accumulation capacity of strategy library tags and mid-tier data PaaS, and empowering branches with cases, templates and standards, to improve the efficiency of data marketing. We will also strive to better the digital risk management and control system for retail business, and build a full-process, multi-dimensional and quantifiable retail quality control architecture.

[Q5] Banks are putting more emphasis on IT investment and digital transformation. China Minsheng Bank appointed a new Chief Information Officer last year. How is the current situation of digital transformation in you bank? What are the future plans? Do you have any “good cards” to play in facing the competition from leading financial institutions and online finance models?

Chief Information Officer ZHANG Bin:

Last year, China Minsheng Bank formulated the top-level design and plans for digital transformation. The new five-year development plan unveiled the implementation strategy for digital finance, and specified the goal of “developing into an agile and efficient bank with ultimate customer experience and increasing value”, or an eco-bank and intelligent bank. With efforts in optimising organisational structure and operation mechanisms, enhancing technological and data capability, and increasing resources input, the digital transformation achieved initial progress last year.

This year, the digital transformation of China Minsheng Bank enters a stage

of full implementation and acceleration. Firstly, breakthroughs have been made in the incubation of major eco-bank projects, new products and models will be launched and innovation will be continued simultaneously. Among the 25 types of ecosystem scenarios to be launched and expanded, nine relate to enterprises' production/operation and institution platforms, 13 focus on personal life journey and the remaining three involve financial institutions. More than 10 types of the scenarios have been put into operation. In addition, the open bank has connected with over 100 external platforms with more to come.

Secondly, work is in full swing for building an intelligent bank. Driven by the dual engines of "IT + data", we carried out intelligence-based re-engineering of traditional banking in five aspects, including digital channel, digital marketing, digital risk control, digital operation and digital management.

The third is establishing cross-function agile teams to reshape end-to-end journeys of important customers with the goal of improving customer experience. Meanwhile, departments responsible for customer groups, products and channels cooperated closely, fully enhancing the customer-oriented digital operation capability in a use case-driven manner.

The above three points paint the general picture of China Minsheng Bank's digital transformation. Furthermore, capacity building is also an important part. **Data capability** mainly involves two aspects, one, improved capability for data governance and data asset management; the other, the capability for building platforms that can support massive intelligent data application. The development of **technological capability** takes three important directions. The first is to transform to a Cloud Native technology system in an all-round and orderly manner, the second is to create an enterprise-level architecture supporting ecosystem-based online operation and agile innovation, and the third is to continuously improve the capability in safeguarding cyber and information security.

For the second part of your question, I'll explain how China Minsheng Bank

drives the current digital transformation with its strengths in fintech.

Everyone agrees that digital transformation for banks is essentially an operation and management reform driven by digital technologies. So I can give a brief answer from the perspectives of technology and reform.

In the technology field, China Minsheng Bank has a sound foundation and outperforms other financial institutions in some aspects. 1. China Minsheng Bank is among the earliest banks that have studied and applied distributed technology, and took the lead in moving the core business system to the distributed architecture platform based on PC servers, which improved availability and scalability of the systems and brought significant cost efficiency. It also laid a solid foundation for fully switching to a Cloud Native technology system which featured distributed, micro-service architecture and container technology. It is the common consensus in the industry that Cloud Native is the future trend of technological development. 2. In terms of platform and architecture, the existing open bank platform and the middle-tier business and data PaaS capability, which have been in place and are still developing, can support agile innovation, especially portfolio innovation, and facilitate scenario linkage and ecosystem operation. 3. Financial technologies such as biological recognition, big data, artificial intelligence and blockchain have been widely applied by China Minsheng Bank, and contributed to the results of business performance. 4. China Minsheng Bank has a professional IT team that is familiar with banking business, dedicated to their job and capable of facing challenges. The professional job sequence reform completed last year opened up and widened career paths for IT personnel. Those are our IT capabilities.

As mentioned just now, the digital transformation of China Minsheng Bank is initiated and pushed ahead by the top management. Our Chairman and our President led in person to formulate top-level plans and design, clarified the goals and paths, and reformed the organisational structure by setting up offices for coordinating and advancing the digital transformation. Those measures have proved equally and even

more important than IT capabilities to achieve successful operation and management reform. Therefore, we have full confidence in the digital transformation of China Minsheng Bank.

[Q6] The transition period for China’s new regulations on asset management business of financial institutions has ended. As at the end of 2021, did the asset management business of China Minsheng Bank comply with the regulatory requirements? What are the latest update about the business opening of the wealth management subsidiary and its business plans? What advantages does China Minsheng Bank have in wealth management business?

Executive Vice President HU Qinghua:

I. After hard work in 2021, the wealth management business of the Bank witnessed major changes and progress.

Firstly, we diversified the product portfolio and rolled out more short-term products, bringing significant increases in customer count and product scale.

Secondly, we strengthened investment research and realised research empowerment. As a result, product performance and stability of performance were significantly improved, and the overall strength of our wealth management business ranked among top in the industry.

Thirdly, we established the complete and standardised full-life cycle product management system and the “Service+” customer service system to improve investment services and investor experience.

Fourthly, we accelerated the rectification for existing products and the disposal of problem assets to attain the rectification target and boost product transformation, and have fully complied with the regulatory requirements.

II. Progress of business opening and development goals of the wealth

management subsidiary

Approval has been granted for the establishment of the wealth management subsidiary of China Minsheng Bank and capital injection has been completed. A formal application has been made with the China Banking and Insurance Regulatory Commission (CBIRC) for opening business, and on-site acceptance has been completed, so the subsidiary can start operation upon official permission from the CBIRC.

Our goal is to put investors' interests first and abide by the original business mission of "managing wealth as entrusted", and generate continuous and steady returns for investors, thus developing the wealth management subsidiary into a first-class asset management institution with distinctive features, steady operation, customer trust and excellent organisation. By means of cross-selling among customer groups, sharing channel resources and matching capital and asset management needs (资金资产协同), the wealth management subsidiary will strengthen coordination with China Minsheng Bank and pursue win-win results. In the coming three years, the wealth management subsidiary will strive for expansion of business scale and significant improvement of industry status.

III. Competitive edges in wealth management business

(I) The variety of product portfolio took the lead among peers. Our products cover 27 of the 30 general categories, basically involving all the mainstream investment types, strategies, terms and customer channels, and can effectively meet the diverse needs of investors.

(II) We have obvious advantages in "fixed-income+" products. Through the effective return strategies, we realised the product features of "low volatility and stable returns", which matched with the investment habit and risk preference of wealth management customers.

(III) We started FOF investments a step earlier. We tracked fund management

companies and fund managers on a long-term and in-depth basis through the outsourced teams. After six years of operation, we have formed strong capability and comparative advantages in fund portfolio investment, and laid a foundation for issuing hybrid and equity-based products.

(IV) Coordination with China Minsheng Bank has been improved. The wealth management subsidiary will suit market demands, serve and coordinate with the Bank while complementing each other, and better serve investors.

(V) The wealth management subsidiary will give full play to the Bank's advantages in market-oriented systems and mechanisms, build the best teams and core competitiveness with market-oriented ideas, mechanisms and culture.

[Q7] Chairman GAO Yingxin has led the management in carrying out a series of “surgical” reforms after he joined the Bank. What are the biggest resistance to the reforms? What are the changes in the operation of risk control departments as compared with the past? How stable are the backbone personnel across business lines? How will the Bank serve the NSOEs under the backdrop of an increasingly complicated real economic environment?

Chairman GAO Yingxin:

China Minsheng Bank has advanced reforms in a steady and gradual way while fully taking into account the reality, instead of in a surgical way.

I. Resistance to reforms

Reforms will certainly meet resistance. In the past two years, we have managed to push forward the reforms in a fairly smooth way in despite of resistance. The following four points hold the key:

Firstly, the decision, schemes and measures for the reform were scientific and in line with the actual situation. We didn't launch reforms for the sake of reforms, but took every reform measure based on opinions from stakeholders.

Secondly, the most important for a reform is to gain understanding and support from the majority of the employees. Education is very crucial for reaching consensus among all employees. The reform is meant to bring vigor and vitality to the bank and remove various drawbacks unadapted to the development environment. Without reforms, it would be hard for the Bank to achieve healthy and sustainable development.

Thirdly, as reforms are associated with different interests of different employees, we have been meticulous and thoughtful as much as possible throughout the reform process to balance their interests.

Lastly, we are determined to reforms, and reform those should be reformed. On the premise of following the general direction of reforms, we don't rush for success, but strive to dissolve and address problems hindering the reforms in a gradual way in the process of reform.

So generally speaking, China Minsheng Bank has advanced reforms in a relatively smooth way in despite of resistance. The reforms bring about some fundamental changes to our ideas and habits. Now we have taken a significant step and made good progress. In the future, new difficulties and challenges are still likely to emerge, but we have gradually reached consensus on transforming our concepts and ideas to enhance our abilities and adapt to reforms.

II. Risk control

Risk control is crucial. While carrying out reforms in the past two years, we put a special emphasis on building three lines of defense for risk management. The first and the second lines of defense are seemingly contradictory, but they are not. The most effective risk management lies in accountability and coordinated operation across the three lines of defense. It is the global best practice in the banking industry and the common consensus on risk management among regulators, and also a priority in the risk control mode reform of the Bank.

Among the three lines of defense, the first line of defense highlights responsibility for risk management while the second line of defense primarily serves as a check and balance. Current principles and operation modes for risk control vary greatly from the past. To be specific, risk control departments will totally reshape their operations into systematic, intelligent and standardised ones in these two years. Risk management will get closer to the front line, to the market changes and to customer needs, and at the same time, the overall risk management system will get more effective. We will make credit policies and systems more scientific and systematic and will truly implement them. In addition, intelligent online operation is also a focus of the risk control departments in recent years. We hope to make the entire risk management more systematic by accomplishing various tasks.

III. Stability of front-line staffs

The biggest reform in the past two years is the corporate business system reform, of which a very important point is the professional job sequence reform. We set up professional positions to elevate job values of account managers. Based on the incentive and restraint mechanism, we shifted performance evaluation method from a simple and one-sided one to an all-round and sustainable one.

In general, we not only took into account the initiative of the front-line marketing and customer relationship management departments in sub-branches and made their performance fully recognised, but also enhanced the job values of the front-line staffs of the head office and tier-one branches, so that they can comprehensively consider customer needs. Therefore, the front-line staffs in key positions and of relations with key strategic customers generally remained stable during the professional job sequence reform.

IV. Serving NSOEs

As “a bank for the NSOEs”, we hope to become a bank that has the best understanding of the NSOEs and offer the best services to them, because it is the

original mission of China Minsheng Bank since establishment, and what we've been doing ever since.

In the past two years, some NSOEs encountered challenges, but in multiple fields, there were also many well-performing industry leaders with strong global competitiveness. Along industry chains involved, a large number of SMEs have emerged in the manufacturing sector and other emerging sectors. China Minsheng Bank is steadfast in providing satisfying services for the NSOEs. Firstly we have firm confidence in the very significant role the NSOEs play in China's economic development and employment. We should have a thorough understanding of the customers, including the sector they are in and their needs, and better grasp their risks. We should change from focusing on single customer to identifying and developing NSOEs customers through various scenarios including industry chains and other platforms, while use data of various behaviours to identify and control risks by the means of digital finance tools such as online intelligent risk control.

Executive Vice President YUAN Guijun:

I would like to add something more in accordance with the instruction of the Chairman. After joining China Minsheng Bank, in light of changes in the internal and external environment and the development strategy and goals of the Group, Chairman GAO Yingxin has led the Group to reshape and establish a new internal risk control system by adjusting architectures, reforming systems, optimising mechanisms, and improving quality under the principle of "One Minsheng".

(I) We consolidated the systematic foundation. Chairman GAO has always stressed on that "the internal risk control is the core competitiveness". We have been reinforcing this philosophy while executing it. With a systematic mindset, we have taken solid actions in promoting the new internal risk control system consisting of "one core", "two systems", "three-pronged approaches" and "four bridges and eight pillars", as explained earlier. We have disclosed the new internal risk control system in the Annual Report. We understand that internal risk control cannot rely on a

piecemeal approach, but a systematic and policy-based one. For instance, in litigation cases where the Bank was the defendant, the win rate and loss reduction rate showed better results by increasing 11.06% and 1.54% YoY.

(II) We improved the level of standardisation. In a problem-oriented way, we improved crucial links in internal risk control in pursuit of standardisation, normalisation and elaboration. Firstly, we reformed the architecture by strengthening comprehensive management, procedure control, coordination and synergy, and the disposal of non-performing assets. In addition, we improved the duty performance of special committees of the Board of Directors and the Senior Management, enhanced unified management of credit risks, and as required by the Chairman, upgraded the management level of special assets, enhanced the coordinated handling of compliance risk, operational risk, and legal affairs. Secondly, to reshape the policy system into a standardised one, we have established four mechanisms to incorporate external regulations into internal management, manage and control policy-making process, inspect policy compliance, and give feedback on policy execution. Thirdly, as for the operation of the new internal risk control method as you concerned, we have optimised the policies by following the “customer-centric” philosophy and optimising procedures to cooperate with inspectors and smooth up the investigation process. We have set up standard research and investigation templates for different industries. We also promoted the credit approval system reform last year and achieved good results. After the reform, the whole-process approval time was shortened from 22 days on average to around 13 days, while the head office approval time was reduced from 8 days on average to around 6 days. The time may be as short as one or two days for our so-called strategic customers.

(III) We carried out intelligent management. As the Chairman explained, based on the strategy of technology-driven digital development, we have planned the construction of intelligent risk control system, improved the system of whole-process risk control, continuously optimised the risk control models, diversified data interfaces and reinforced the tool reform. The Bank’s intelligent risk control system

includes 43 modules, a few of which have been developed and have yielded good results. The first is intelligent approval. We developed an intelligent divided approval mode of secured loans to small and micro enterprises, which increased the average whole-process operation efficiency by about 60%. The second is automatic loan placement. We realised online automatic immediate loan placement to small- and medium-sized customers along the supply chains. The third is intelligent behaviour monitoring. We can automatically track 14 types of abnormal behaviours. The fourth is risk limit management system. Last year, our Bank's risk limit management enhancement project won the "China Regulatory Technology Implementation Award 2021" by *The Asian Banker*. The fifth is that we have improved credit investigation management since last year pursuant to the requirements of the Chairman. In the credit investigation rating from the regulator last year, we were awarded outstanding organisation and outstanding individual. Going forward, we will continue to follow the general reform direction throughout the Bank, implement the five-year plan, stick to system building, and enhance comprehensive risk management to pursue sustainable development while guarding against risks.

[Q8] Please introduce the highlights of corporate business in 2021. What are the focuses of corporate business in 2022?

Executive Vice President SHI Jie:

In 2021, we comprehensively reformed the marketing system of corporate business by streamlining and optimising the service system for strategic customers in terms of organisational structure, management mechanism, service standard, operation mode, and evaluation and incentive, etc. The core is to truly establish a strategic partnership with strategic customers, become customers and ecosystems of each other, grow together, serve the medium, small and micro enterprises along the industry chains and in the ecosystems of strategic customers together, thus enhancing the service value to strategic customers. So far, the reform has been successful on the whole, and the momentum of transformation and development has kept improving. The business highlights in 2021 can be summarised in three main aspects:

Firstly, the cooperation stickiness of strategic customers was increased, and the

quality and efficiency of services were significantly improved. We implemented list-based management for 1,416 strategic customers at the head office level and the branch level. We developed comprehensive service plans and assigned the “five-in-one” professional service team for each strategic customer. A new service system of “head office-to-head office, integration, segmentation, and professionalism” was created, and a new service mode featuring “one point access, nationwide radiation, multi-point response and panoramic service” was implemented. After nearly one year of operation, we continuously improved the breadth and depth of services to strategic customers. In 2021, the growth rates of deposits and loans of strategic customers of the head office and branches were 15% and 20%, both significantly higher than the average of the Bank.

Secondly, by focusing on strategic customers, the key driving force for the development of corporate business, we implemented integrated development of large, medium, small and micro enterprises, which brought continuously expanded customer groups and optimised business structure. Along the capital chains and industry chains of strategic customers, we constantly promoted mutual referral and attraction of each other’s customers, as well as channel exchange and sharing, and deeply embedded adaptable payment and settlement services into various business scenarios of supply chains. That’s how we enhanced cooperation stickiness of strategic customers.

In 2021, the efficiency and quality of customer acquisition of the Bank were significantly improved. The number of new effective corporate customers of the Bank grew by 21.0 thousand, up by 18% from the previous year, and the increase of effective customers was 2.8 times of the figure in the previous year. The structure of corporate deposits was optimised continuously and high-cost structured deposits accounted for less than 1%. The proportion of demand deposits gradually increased, and the proportion of daily average corporate demand deposits increased by 2.48 percentage points from the previous year. The decline of deposit costs was realised. The customer base has been consolidated through such service system.

Thirdly, through continuous innovation and iteration of business modes and

online products, we greatly enhanced service efficiency and customer experience. Firstly, we set up the Digital Finance Innovation Department dedicated to agile innovation. By focusing on various business scenarios of strategic customers, we quickly developed and launched a series of fully online financial products such as supply chain data-based credit enhancement and financing, Minsheng Express Credit, Express Loan and internet ecosystem-based loans, and achieved immediate loan placement within seconds, which enhanced our market competitiveness. As what the Chairman said just now, the core of corporate business is to expand basic customers and improve basic services. Therefore, we completed the online transformation of various basic products this year, realising the full online operation of all products covering corporate account opening, payment and settlement, cash management, letter of guarantee, factoring and cross-border settlement and financing. The products such as E-Corporate Account Opening, E-Capital Supervision, electronic letter of guarantee, self-service discounting, and Minsheng Global Fast Payment were particularly popular among customers. In addition, digital marketing tools such as “Timely Help” system for strategic customers and “Portable Monitor” system for basic customer groups were launched in the year, which greatly enhanced the Bank’s digital marketing service capabilities. The transformation in the above three areas kept improving.

As to the second question, facing the common challenges such as shrinking demands, fiercer competition for high-quality customers and high-quality assets, and falling asset prices, in 2022, we will strive to focus on the following three aspects.

Firstly, we will stick to the segmented and classified management of customer groups. We will optimise and perfect the service system for basic customers, while serving the strategic customers well. We will implement supply chain-based development of strategic customers and provide well-matched services, and particularly offer high-quality services to the related enterprises along the upstream and downstream industry chains and in the ecosystems of strategic customers. We aim to upgrade the acquisition model of strategic customers from single development to supply chain-based development, and then to ecosystem-oriented development, so as to continuously expand cooperation areas, deepen cooperation relations, and

consolidate customer base.

The biggest challenge for 2022 is likely to be asset distribution. So the second focus is to maintain steady growth of loan scale based on structural adjustment. Firstly, we will closely follow the national strategies, support the development of the real economy, and increase asset allocation in green finance, rural revitalisation, advanced manufacturing and other key areas. Moreover, centring on the business scenarios of strategic customers, we will continuously develop and iterate new modes and products, and increase supply chain data-based credit enhancement and financing to medium, small and micro enterprises, especially to those with open data. In addition, targeting on dedicated, refined, distinctive and innovative enterprises, new energy and key areas of the people's livelihood, we will vigorously promote Minsheng Easy Innovation, Photovoltaic Loan, Agriculture and Animal Husbandry Loan, Cotton Express and other distinctive businesses to increase the allocation of suitable assets in segmented fields, thus to expand the scale of loans.

The third and the most important focus is how to prevent risks from the front or the market end. We will insist on the guidance of planning by formulating market planning from three dimensions, i.e. regional planning, industry planning and customer planning, to realise batch customer acquisition and provide incremental services (递进服务) relying on strategic customers and related cooperation platforms, and effectively control customer access. Regarding risk prevention, the first line of risk defense takes the primary responsibility, so we will constantly optimise the management mechanism of the first line of risk defense, and strengthen marketing behaviours and business duration management based on the operating system, in a bid to ensure stable asset quality.

[Q9] Outlook for net interest margin in 2022

Executive Vice President LI Bin:

From the perspective of the market, the net interest margin is expected to face

the pressure of further narrowing in 2022.

Firstly, the loan return ratio is expected to remain a decreasing trend. In terms of market environment, under the background of asset shortage, the asset pricing will remain at a low level due to fierce competition among peers. In terms of policy, the national policy on fee reductions will be further carried out to support the development of the real economy. So the loan return ratio is expected to remain a decreasing trend.

Secondly, in terms of deposit costs, although the existing monetary policy remains prudent and the market liquidity is reasonably sufficient, competition in the deposit market is particularly fierce. Meanwhile, interest rate increase of the US dollars propels the rise in the cost of foreign currency deposits. Room for the reduction of costs of all deposits is still limited.

Facing the pressure of further narrowing of net interest margin, we will adopt multiple measures to strengthen the net interest margin management from the aspects of assets and liabilities.

In terms of assets, Executive Vice President SHI talked about it a lot just now. Firstly, we will continuously increase credit asset placement, strive to accelerate loan placement and improve the proportion of credit assets in interest-earning assets. Secondly, we will optimise credit business structure, incline more credit resources to key customer groups and key industries. Thirdly, we will enhance integrated pricing management of customers, improve risk pricing ability, and highlight value guidance. Fourthly, we will enhance forward-looking judgment of market interest rates, grasp a good timing in the market to reasonably allocate bonds and interbank assets, optimise the maturity structure, and raise the efficiency of fund utilisation.

In terms of liabilities, we have been focusing on increasing core liabilities and decreasing high-cost deposits in recent years. Structured deposits, for example, have decreased significantly, and brought decrease in deposit costs for two consecutive years. In the next step, we will continue to take core liabilities as a strategy-oriented business, and drive the increase of low-cost demand deposits with businesses such as

payroll agency, payment and settlement, and cash management through customer group management. Secondly, we will improve medium- and long-term deposit business. Some negotiated deposits and large-amount certificates of deposit will mature in 2022. We hope to reduce the cost of liabilities by repricing and rearranging these deposits. Thirdly, we will make flexible arrangements for market-based sources of funds, and reasonably arrange the scale and maturity of interbank liabilities, bonds issued and other funds, to further reduce the cost of liabilities.

On this basis, we will further optimise the structure of assets and liabilities, promote coordinated growth in volume and value, and strive to maintain a relatively stable net interest margin in 2022.