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中國民生銀行股份有限公司  
**CHINA MINSHENG BANKING CORP., LTD.**

*(A joint stock company incorporated in the People's Republic of China with limited liability)*

**(Stock Code: 01988)**

**(USD Preference Shares Stock Code: 04609)**

**OVERSEAS REGULATORY ANNOUNCEMENT**

This announcement is made by China Minsheng Banking Corp., Ltd. (the “**Company**”) pursuant to Rule 13.10B of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

Please refer to the attached China Minsheng Banking Corp., Ltd. Announcement in Response to Shanghai Stock Exchange’s Regulatory Letter in Relation to Information Disclosure in Annual Report 2020 of the Company released by the Company on the website of Shanghai Stock Exchange and newspapers in the PRC.

By Order of the Board  
**CHINA MINSHENG BANKING CORP., LTD.**  
**Gao Yingxin**  
*Chairman*

Beijing, PRC  
30 April 2021

*As at the date of this announcement, the executive directors of the Company are Mr. Gao Yingxin, Mr. Zheng Wanchun and Mr. Yuan Guijun; the non-executive directors are Mr. Zhang Hongwei, Mr. Lu Zhiqiang, Mr. Liu Yonghao, Mr. Shi Yuzhu, Mr. Wu Di, Mr. Song Chunfeng and Mr. Yang Xiaoling; and the independent non-executive directors are Mr. Liu Jipeng, Mr. Li Hancheng, Mr. Xie Zhichun, Mr. Peng Xuefeng, Mr. Liu Ningyu and Mr. Qu Xinjiu.*

**China Minsheng Banking Corp., Ltd.**  
**Announcement in Response to Shanghai Stock**  
**Exchange's Regulatory Letter in Relation to Information**  
**Disclosure in Annual Report 2020 of the Company**

The Board of Directors and all Directors of the Company assure that there exist no false records, misleading statements or material omissions in this announcement, and undertake to assume joint and several liabilities for the authenticity, accuracy and integrity of the content herein.

On 14 April 2021, China Minsheng Banking Corp., Ltd. (hereinafter referred to as "the Company" or "the Bank") received Shanghai Stock Exchange's "Regulatory Letter in Relation to Information Disclosure in Annual Report 2020 of China Minsheng Banking Corp., Ltd." (SSE Circular [2021] No. 0321) (hereinafter referred to as the "Regulatory Letter"), requiring the Company to respond in writing and fulfill the information disclosure obligation. After receiving the "Regulatory Letter", the Company has actively organized relevant departments to check and explain issues one by one. We hereby reply to the relevant issues mentioned in the "Regulatory Letter" and announce as follows:

**I. About Credit Assets**

**Question 1: The annual report shows that the Company's net profit attributable to the parent 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, the provision for impairment of loans was RMB76.990 billion, with a year-on-year increase of 26.52%, and the provision for impairment of write-off and transfer-out loans was RMB67.110 billion, with 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%, with a year-on-year increase of 0.26 percentage points. Please make supplementary explanation as follows: (1) Give the reason for the significant increase in NPL ratio, and explain whether the criteria for identifying NPL have changed significantly, based on the changes in the ratio of loans overdue for more than 90 days to NPL; (2) 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 reason for the significant increase in NPL ratio, and explain whether the criteria for identifying NPL have changed significantly, based on the changes in the ratio of loans overdue for more than 90 days to NPL.**

① About the reason for the increase in the NPL ratio as at the end of 2020

As impacted by COVID-19 pandemic 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 Bank's NPL ratio was 1.82%, with an increase of 0.26 percentage points from the beginning of the year. The reasons for the increase in NPL ratio include the following two aspects:

Firstly, resolutely implemented regulatory requirements and strictly enforced classification standards.

According to 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, and commercial banks shall strengthen the management of loan maturity", and other relevant requirements, the Bank has basically

downgraded the loans overdue for more than 90 days to NPL, and continuously controlled the ratio of loans overdue for more than 90 days to NPL within 100% in 2019.

In 2020, the Bank implemented the regulatory guidance, and further downgraded loans overdue for more than 60 days but within 90 days to NPL in principle, based on downgrading loans overdue for more than 90 days to NPL. For some loans that are not yet due or that have been overdue for less than 60 days but are exposed to certain risk characteristics due to the impact of COVID-19, the Bank also downgraded such loans to NPL in a timely manner in strict accordance with the core definition of five-level classification of loans, and strictly implemented the existing risk classification standards.

Secondly, the COVID-19 had a great impact on the asset quality of certain industries and businesses.

The growth of corporate NPL was mainly concentrated in key industries that have been greatly affected by COVID-19. Affected by COVID-19, the Bank's corporate NPL increased in 2020, which was mainly concentrated in three industries which were heavily affected by COVID-19, namely the transportation, storage and postal services industry, wholesale and retail industry, and mining industry. The NPL in the three industries increased by RMB10.606 billion in total, accounting for 103% of the total increase in corporate NPL. With the gradual bettering of the situation of COVID-19 at home and abroad, as well as the full resumption of domestic work and production 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 asset quality will stabilize in 2021.

Unit: RMB100 million

| Industry | 31 December 2020 |           | 31 December 2019 |           | Year-on-year change |                               |
|----------|------------------|-----------|------------------|-----------|---------------------|-------------------------------|
|          | Total NPL        | NPL ratio | Total NPL        | NPL ratio | Total NPL           | NPL ratio (Percentage points) |
|          |                  |           |                  |           |                     |                               |

|   |               |       |              |       |               |      |
|---|---------------|-------|--------------|-------|---------------|------|
| Transportation, storage and postal services | 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, the Bank's corporate loans in other industries maintained stable or better asset quality, benefitting from the adjustment and optimization of customer structure and business structure in recent years. In other industries except for the above three industries, the Bank's balance of loans accounted for 82.97%, balance of NPL decreased by RMB300 million from the beginning of the year, and average NPL ratio was 1.04% with a decrease of 0.11 percentage points from the beginning of the year, showing stable and better asset quality.

The growth of retail NPL was mainly concentrated in credit card business. Affected by COVID-19, some of the Bank's credit card customers' willingness and ability to repay have declined, and the NPL in credit card business increased significantly. As at the end of 2020, the Bank's balance of credit card NPL was RMB15.18 billion, with an increase of 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 NPL will gradually stabilize in 2021.

Except for credit card business, the total NPL in other retail businesses such as small and micro businesses, housing mortgages, and general consumption increased by RMB1.19 billion from the beginning of the year, representing a NPL ratio of 1.42% that decreased by 0.14 percentage points from the beginning of the year, indicating that the quality of assets maintains stable.

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

The Bank's loan risk classification strictly complies with the "Guidelines for Classification of Loan Risks" (Yin Jian Fa [2007] No. 54), "Measures for the Classification of Small Business Loan Risks (Trial)" (Yin Jian Fa [2007] No. 63) and other regulatory and internal regulations, and continuously strengthens the authenticity, timeliness, importance and prudence management of risk classification. When classifying loans, the Bank

assesses the borrower's ability to repay as the core, and takes comprehensive consideration of the borrower's repayment record, willingness to repay, project profitability, loan guarantee and other factors. The Bank's risk classification standards for 2020 have not changed significantly from the previous year, but the implementation of the standards is more prudent and stricter.

Firstly, the Bank continues to strictly recognize the loans overdue for more than 90 days as NPL. As at the end of 2020, the ratio of loans overdue for more than 90 days to NPL was 73.88%, decreasing by 14.12 percentage points as compared to 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 NPL  | 700.49      | 544.34      | 156.15                   |
| Balance of loans overdue for more than 90 days/balance of NPL | 73.88%      | 88.00%      | -14.12 percentage points |

Secondly, the future impact of COVID-19 is fully considered in the risk classification of loans overdue within 90 days and loans that are not overdue. Among them, the loans overdue for more than 60 days but within 90 days are downgraded to NPL in principle. Meanwhile, for some loans that are not yet due or that have been overdue for less than 60 days but are exposed to certain risk characteristics due to the impact of COVID-19, the Bank also downgraded such loans to NPL in a timely manner in strict accordance with the core definition of five-level classification of loans, and strictly implemented the existing risk classification standards.

**(2) 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.**

There was no situation where the credit impairment loss of a single customer's credit asset reached 10% of the most recent audited net profit during the reporting period.

**Question 2: The annual report shows that the migration rate of the Company's special-mentioned loans reached 30.60% during the reporting period, that of substandard loans reached 89.49%, and that of doubtful loans reached 56.75%, representing a large increase over the previous period. Please: (1) Give the reason for the large downward migration of special-mentioned loans, substandard loans, and doubtful loans in 2020; (2) Give the main reason for the large increase in the provision for impairment of write-off and transfer-out loans in 2020, based on the specific basis and standards for the provision for impairment of write-off and transfer-out loans.**

**[Reply]**

**(1) Give the reason for the large downward migration of special-mentioned loans, substandard loans, and doubtful loans in 2020.**

The specific calculation formula for "loan migration rate" is: loan migration rate = amount of downward migration loan / (beginning balance of loan - loan reduction in current period), in accordance with the requirements of "Core Indicators for Risk Supervision of Commercial Banks" (trial) issued by the China Banking and Insurance Regulatory Commission.

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

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

In 2020, the Bank's downward migration amount of special-mentioned loans 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 standards for loan risk classification, and strengthened risk classification management, to truly and dynamically reflect loan quality.

The migration rate of special-mentioned loans increased significantly compared with the previous period, because: at the beginning of 2020, the amount of migration from

special-mentioned loans to NPL increased by RMB10.536 billion year-on-year, which means that the numerator of migration rate of special-mentioned loans increased; at the same time, the Bank strengthened early risk mitigation measures, and increased efforts to collect and resolve overdue and special-mentioned loans. At the beginning of 2020, the difference between the balance of special-mentioned loans and the reduction in special-mentioned loans in current period decreased by RMB2.707 billion compared with 2019, i.e., the denominator of the migration rate of special-mentioned loans decreased.

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

In 2020, the Bank's downward migration amount of substandard loans saw a year-on-year increase of RMB1.15 billion. The main reason is that the Bank strengthened its management of NPL, continuously tracked the changes in its actual risks, and downgraded substandard loans that further deteriorated to doubtful and loss loans.

The migration rate of substandard loans increased significantly compared with the previous period, because: at the beginning of 2020, the amount of downward migration of substandard loans increased by RMB1.150 billion year-on-year, which means that the numerator of migration rate of substandard loans increased; at the same time, the Bank increased efforts to dispose NPL in 2020. At the beginning of 2020, the difference between the balance of substandard loans and the reduction in substandard loans in current period decreased by RMB6.065 billion compared with 2019, i.e., the denominator of the migration rate of substandard loans decreased.

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

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

The migration rate of doubtful loans increased significantly compared with the previous period, because: at the beginning of 2020, the downward migration amount of doubtful



loans increased by RMB1.788 billion year-on-year, i.e. the numerator of the migration rate of doubtful loans increased.

**(2) Give the main reason for the large increase in the provision for impairment of write-off and transfer-out loans in 2020, based on the specific basis and standards for the provision for impairment of write-off and transfer-out loans.**

① Basis and standards for provision for impairment of write-off and transfer-out loans

Regarding the provision for impairment of loan write-offs, the Bank will, in accordance with the "Administrative Measures for the Write-off of Bad Debts of Financial Enterprises (2017 Edition)" (Caijin [2017] No. 90) of the Ministry of Finance, make full provision for impairment of NPL that meets the standards for recognition of bad debt, and write off the provision for impairment of assets upon write-off.

Regarding the provision for impairment of the transferred-out loans, the Bank will, in accordance with the "Administrative Measures for the Batch Transfer of Non-performing Assets of Financial Enterprises", "Due Diligence Guidelines for the Disposal of Non-performing Financial Assets", other laws and regulations, as well as relevant institutional requirements of the Bank, transfer the Bank's non-performing assets at fair price to a third party based on legal, compliant and voluntary basis, and transfer out the provision for impairment (that is, the difference between the principal of the non-performing assets and the transfer consideration after deduction of the advance payment).

② The main reason for the large increase in the provision 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 downward pressure on asset quality increased. In this background, the Bank consolidated asset quality and strengthened the disposal of NPL. The year-on-year increase in NPL disposed through transfer (including securitization of non-performing assets) and the disposal losses was relatively high, resulting in a substantial increase in the provision for impairment of write-off and transfer-out loans.

In 2020, the Bank's provision made for disposal of the impairment of write-off and

transfer-out NPL totaled RMB67.110 billion, with a year-on-year increase of RMB16.180 billion, details of which are as follows:

Unit: RMB100 million

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

The Bank's write-off and transfer of NPL in 2020 increased significantly from the previous year, resulting in an increase in the provision for impairment of write-off and transfer-out loans. In 2020, the Bank disposed of RMB43.289 billion NPL through transfer, with a year-on-year increase of RMB22.032 billion, resulting in a transfer disposal loss of RMB27.370 billion, with a year-on-year increase of RMB15.562 billion. The Bank disposed RMB36.259 billion NPL through write-off, with a year-on-year increase of RMB1.431 billion.

**Question 3: The annual report shows that the balance of the Company's loans to related parties totaled RMB68.201 billion as at the end of the reporting period. As at 31 December 2020, no credit-impaired loans were found among the above-mentioned loans. Please explain whether the Company has made sufficient provision for the impairment of the foregoing connected loans, based on relevant provisions of the accounting standards and the solvency and financial status of the foregoing related parties.**

**[Reply]**

**(1) Relevant regulations on the Bank's provision of impairment**

In accordance with relevant requirements of application guideline of the "Accounting Standards for Business Enterprises No. 22-Recognition and Measurement of Financial

Instruments", companies can divide the process of credit impairment of financial instruments into three stages, and adopt different accounting treatments for the impairment of financial instruments at different stages: If the credit risk has not increased significantly since the initial recognition, it is divided into the first stage, and the loss provision is measured according to the expected credit loss in the next 12 months; if the credit risk has increased significantly since the initial recognition but no credit impairment has occurred, it is divided into the second stage, and the loss provision is measured according to the expected credit loss during the entire lifetime of the instrument; if credit impairment occurs after initial recognition, it is divided into the third stage, and the loss provision is measured according to the expected credit loss during the entire lifetime of the instrument.

Since the implementation of the new financial instrument standards in 2018, the Bank has always implemented the above-mentioned method of provision for impairment based on expected credit losses. The specific methods are as follows:

① Based on whether the risk has increased significantly, all financial assets that need the provision for impairment are divided into three stages. Based on factors such as number of overdue days, risk classification, probability of default, etc., combined with qualitative and quantitative judgments, all financial assets are divided into the first stage (the credit risk has not increased significantly since initial recognition), the second stage (the credit risk has increased significantly since initial recognition but credit impairment has not occurred), and the third stage (there are objective evidences showing that credit impairment has occurred). For financial assets divided into the first stage, the Bank measures impairment based on 12-month expected credit losses. For financial assets divided into the second and the third stages, the Bank measures impairment based on the expected credit losses during the entire lifetime.

② Estimate PD (Probability of Default) and LGD (Loss Given Default) based on the internal rating system. In accordance with the implementation requirements of the Capital Management Measures and the Internal Rating Approach, the Bank has established an internal rating system covering companies, financial institutions and retail businesses, and realized the estimation of the PD and LGD of a single business. At the same time, in

accordance with the management requirements on internal rating verification, the Bank will conduct independent verification by the verification team before the rating model is launched. After the launch, the performance of the rating model will be monitored on a quarterly basis, and the rating system will be optimized continuously.

③ Adopt corresponding method of provision for impairment of assets at different stages. For retail financial assets and the non-retail financial assets divided into the first or the second stages, the Bank adopts the risk parameter method, and measures the final impairment results according to the weighted average of the three scenarios such as optimism, benchmark and pessimism based on such risk parameters as probability of default (PD), loss given default (LGD) and so on related to internal rating estimation, after forward-looking adjustments to reflect the macroeconomic impact. For non-retail financial assets divided into the third stage, the Bank adopts discounted cash flow method and makes provision for impairment based on expected cash flow recovery. The specific formula for impairment provision based on risk parameter method is as follows:

$$\text{Expected credit loss} = (\text{scenario 1 weight} \times \text{PD 1 after forward-looking adjustment} + \text{scenario 2 weight} \times \text{PD 2 after forward-looking adjustment} + \text{scenario 3 weight} \times \text{PD 3 after forward-looking adjustment}) \times \text{loss given default} \times \text{default risk exposure}$$

## **(2) Related party loans and impairment provision**

As at the end of 2020, the Bank's balance of loans to related parties was RMB68.201 billion and balance of provision for impairment of loans was RMB435 million, with an average impairment provision ratio of 0.64%. Among them, the balance of related party loans to corporate legal persons is RMB55.867 billion, accounting for 81.9%, with impairment balance of RMB434 million; the balance of loans to related financial-institution parties is RMB11.5 billion, accounting for 16.9%, with impairment balance of 0, mainly because this part of loans is pledged by 100% inter-bank deposit certificates, and the LGD estimated by the internal rating system is 0; the balance of personal related-party loans is RMB834 million, accounting for 1.2%, with impairment balance of RMB1 million.

From perspective of PD (probability of default), the Bank's related parties maintained relatively stable overall operation in 2020. However, several business sectors (such as real

estate sector) of the affiliated companies have also been affected to a certain extent due to COVID-19 and other external factors. As at the end of 2020, the Bank's loans to related parties of RMB68.198 billion were not overdue in the Bank, the risk classification is normal, and the credit rate has not changed significantly since the initial recognition of loans, so the loans have been divided into the first stage; personal loans of RMB3 million have been divided into the second stage as the PD estimated by the internal model projection exceeded 20%. The Bank has strictly implemented the requirements of accounting standards. By adopting the risk parameter method, the Bank has made impairment provision for assets in the first stage according to future 12-month expected credit losses and for assets in the second stage according to lifetime expected credit losses.

From perspective of LGD (loss given default), in the Bank's loans to related parties, the loans with security as the main form of guarantee amounted to RMB8.777 billion in total, accounting for 12.9%; the loans with pledge as the main form of guarantee amounted to RMB41.633 billion, accounting for 61%; the loans based on security and pledge accounted for 73.9% in total. The remaining RMB17.791 billion relied on warranty as the main form of guarantee, accounting for 26.1%. Overall speaking, the Bank's loans to related parties have strong guarantee measures based on security and pledge with good relief of loan risks. The LGD based on model projection has not changed obviously.

In conclusion, the Bank conducted impairment projection in a prudential manner according to the accounting standards and regulatory system based on its judgment of risk condition of the corresponding financial assets at the time of provision and made impairment provision based on the model projection results.

Subsequently, the Bank will continue to track related information such as the solvency and financial status of related party customers, and update key risk factors in a timely manner. The impairment provision will also be updated dynamically in accordance with changes in risk factors.

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

**Question 4: The annual report shows that the impairment loss in the Company's financial investment (including stock assets of the non-principal-guaranteed wealth**

management products in the balance sheet) in 2020 was RMB10.884 billion, with a significant increase of RMB10.25 billion year-on-year. Of which, the loss of the financial assets measured at amortized cost was RMB9.684 billion, and the loss of the financial assets measured at fair value with variation recorded into 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 in terms of impairment losses, please give specific reasons for the large impairment losses in 2020; (2) explain whether relevant policies for the provision for impairment of financial assets in the current period are consistent with those for the previous period, and whether the provision 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 in terms of impairment losses, please give specific reasons for the large impairment losses in 2020.**

As at the end of 2020, the Bank's impairment losses listed based on the categories of financial investment products are shown in the following table. The loss of financial assets measured at amortized cost is RMB9.684 billion. The product categories include trust and asset management plans and bond investments, of which the provision for impairment losses of trust and asset management plans is RMB8.761 billion, with an increase of RMB8.531 billion or more than 30% from 2019. The loss of financial assets measured at fair value with variation recorded into other comprehensive income is RMB1.2 billion, the product category is bond investment, with an increase of RMB1.614 billion or more than 30% from 2019.

Unit: RMB100 million

| <b>Financial investment assets</b> | <b>Product category</b> | <b>Impairment loss in 2020</b> | <b>Impairment loss in 2019</b> | <b>Change in impairment loss from 2019</b> | <b>Ratio of changes in impairment loss from 2019</b> |
|------------------------------------|-------------------------|--------------------------------|--------------------------------|--|--|
|                                    |                         |                                |                                |  |  |

|   |                                 |               |             |               |                 |
|---|---------------------------------|---------------|-------------|---------------|-----------------|
| Financial assets measured at amortized cost   | Trust and asset management plan | 87.61         | 2.3         | 85.31         | 3709.13%        |
| Financial assets measured at amortized cost   | Bond                            | 9.23          | 8.18        | 1.05          | 12.84%          |
| Financial assets measured at fair value with variation recorded into other comprehensive income | Bond                            | 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 Reason for the large impairment losses in trust and asset management plans - financial assets measured at amortized cost in 2020

In accordance with the new asset management regulations and the requirements for accelerating the arrangements for the disposal of stock wealth-management assets issued by the regulatory authorities in September 2020, the Bank included some wealth management products and other off-balance sheet assets into the balance sheet and carried our strict risk classification of the non-performing assets therein in accordance with regulations in 2020, resulting in an increase in overall non-performing assets. In 2020, non-performing assets of RMB12.38 billion among the Bank's off-balance sheet debt assets such as wealth management products were included 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 loss has increased significantly. In accordance with the requirements of "Accounting Standards for Business Enterprises No. 22-Recognition and Measurement of Financial Instruments" (Caikui [2017] No. 7) issued by Ministry of Finance, the provision for impairment losses is made by the Bank based on the model of expected credit losses for financial assets measured at amortized costs. Of which, all non-performing assets have been included into the third-stage management by the Bank, the expected recoverable cash flow of which in the future is calculated using discounted cash flow method, to

objectively reflect the proportion of impairment losses, which results in RMB9.129 billion provision for impairment losses in 2020. At the same time, due to the reversal of RMB368 million impairment losses in the assets at the first stage and those at the second stage, the final provision for impairment losses of trust and asset management plans - financial assets measured at amortized cost amounted to RMB8.761 billion.

② Reason for the large impairment loss of bond investment - financial assets measured at fair value with variation recorded into other comprehensive income in 2020

In accordance with the requirements of "Accounting Standards for Business Enterprises No. 22-Recognition and Measurement of Financial Instruments" (Caikuai [2017] No. 7) issued by Ministry of Finance, the provision for impairment losses is made based on the model of expected credit losses for financial assets measured at fair value with variation recorded into other comprehensive income.

In 2020, the scale of the Bank's bond investment assets grew, and RMB329 million provision for the impairment losses of bond investment assets at the first stage and the second stage was made. At the same time, the Bank continuously strengthened the management of classification of financial asset risks, classified all the RMB1.707 billion bond investments of which prices fell sharply and the issuer defaulted in the open market in 2020 into stage-three assets, and made RMB871 million provision for the impairment of stage-three bond investment assets in accordance with the provisions of the guidelines.

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

In accordance with the requirements of "Accounting Standards for Business Enterprises No. 22-Recognition and Measurement of Financial Instruments" (Caikuai [2017] No. 7) issued by the Ministry of Finance, the Bank implements the new financial instrument standards. For non-retail financial assets divided into the first or the second stage, the Bank adopts the risk parameter method, and measures the final impairment results according to the weighted average of the three scenarios such as optimism,



benchmark and pessimism based on such risk parameters as probability of default (PD), loss given default (LGD) and so on related to internal rating estimation, after forward-looking adjustments to reflect the macroeconomic impact. For non-retail financial assets divided into the third stage, the Bank adopts discounted cash flow method and makes provision for impairment based on expected cash flow recovery.

The Bank's method of provision for impairment of financial assets in 2020 is consistent with that for the previous period. The above method was also used for the provision for impairment of financial assets for the previous period 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 Company's operating income for a single quarter in 2020 was RMB49.3 billion, RMB48.8 billion, RMB45.2 billion and RMB41.6 billion, respectively, and the net profit attributable to the parent company was RMB16.7 billion, RMB11.8 billion, RMB8.9 billion and -RMB3 billion, respectively. Please: (1) Give the main reason for the quarterly decline 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 reason 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 decline 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 income of the banking industry generally showed a quarterly downward trend. The Bank has conscientiously implemented the decisions and

deployments of the Party 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 increased fees and surcharges reduction 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 dual impact of internal and external operating conditions has brought great pressure to the continued growth of the Bank's operating income, and operating income has declined quarter by quarter, but the profitability of core businesses broadly remained stable, with a net interest margin of 2.14% for the full year of 2020, which is flat with 2019. The main reasons affecting the decline in income are the following:

Firstly, the Bank was determined in implementing regulatory policy requirements and strengthening business compliance management. In 2020, the regulatory authorities further strengthened the inspection and punishment of shadow banking and financial "deleveraging". In accordance with relevant regulatory policies and rectification requirements, the Bank significantly reduced the scale of non-standard assets investment, 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 firstly high and later low returns on investment, showing declines from quarter to quarter.

Secondly, the "funding dividend" generated by the "wide monetary" policy during the COVID-19 did not continue. Funds were generally loose during the outbreak of COVID-19 in early 2020, and market fund prices were at historically low levels. 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 prices of funds stabilized after a rebound from a low level, there was little room for bond spreads, and the floating profit of investment valuation also gradually retreated with the rebound of interest rates of funds in the market. In the third and fourth quarters, the Bank realized bond spreads and fund investment income of RMB191 million and RMB811 million, with a

significant drop from the first half of the year.

Thirdly, the Bank actively responded to the call of the state to reduce fees and surcharges to support the real economy. In order to alleviate the impact of COVID-19 and support the resumption of work and production, the central bank has vigorously promoted LPR to guide asset-side pricing to gradually decline, implement the policy requirements of inclusive finance to extend the repayment period as longer as possible, and guide the real economy to reduce financing costs. In 2020, on the one hand, the Bank accelerated the conversion of stock loan LPR pricing, and under the condition that the LPR dropped by 30 BP, the interest rate implemented for the Bank's newly issued RMB loans decreased quarter by quarter, i.e. 5.69%, 5.46%, 5.36%, and 5.10%, respectively in four quarters, with a cumulative decrease of 59BP. In particular, the pricing level of loans for the medium and small, small and micro enterprises decreased significantly and the total yield of small and micro loans dropped by 67BP year-on-year. On the other hand, the Bank proactively reduced fees and interests on the loans to small and micro businesses, and credit card customers, with interest and fee reduction and exemption of RMB1.522 billion in the second half of the year, increasing by 68.2% as compared with RMB0.905 billion in the first half of the year.

Fourthly, the Bank consolidated asset quality and strengthened the disposal of non-performing assets. In 2020, the Bank conducted a thorough investigation of the risk profile of its stock assets, coordinated the preparation of the plan for the disposal of non-performing assets and intensified the recovery and disposal of distressed assets and non-performing assets in stock quarterly.

## ② Trend of quarterly changes in net profit

In 2020, in response to changes in the external environment, the banking industry generally adopted forward-looking measures, increased provisions for asset impairment loss and enhanced the disposal of non-performing assets, which had a certain impact on profits, especially the increase in the net profit of joint-stock banks significantly decreased as compared to 2019. Under the influence of factors such as the quarterly decline in operating income, the expenditure for business and management expenses and the

provision for asset impairment loss, the net profit attributable to shareholders of the Bank showed a quarterly downward trend.

**(2) Give the main reason 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 reason for the loss in the fourth quarter of 2020

The Bank's loss in the fourth quarter of 2020 was mainly due to the combined effects of the progress of provision for asset impairment loss, the quarterly declines in income from the non-standard investments and other non-core businesses and the decrease in bond spreads and fund investment income as a result of market fluctuation.

In the fourth quarter of 2020, due to the impact of impairment model adjustment and asset transfer progress, an asset impairment loss of RMB30.634 billion was provided in the quarter, representing an increase of RMB10.574 billion as compared to the third quarter. Among 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 increased the provision for asset impairment loss by RMB2.551 billion; made a provision of RMB6.169 billion for non-credit assets, representing an increase of RMB1.768 billion as compared to 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; made a loan provision of RMB21.914 billion, representing an increase of RMB6.255 billion as compared to the third quarter, which was mainly used in the disposal of NPLs and other aspects.

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

In 2020, the Bank proactively implemented various regulatory requirements and significantly reduced the investment scale of non-standard assets, while accelerating the inclusion of wealth management assets into the balance sheet according to the new asset management requirements and promoting the clearing of relevant business risks. With great efforts to overcome the influence of various unfavorable factors existed in both internal and external operating environment, the Bank's operating income throughout the

year maintained a stable growth year-on-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 law-compliant track.

This announcement is hereby given as above.

China Minsheng Banking Corp., Ltd.

30 April 2021