

## Appendix 3

### Explanatory Notes on Commercial Bank Performance Evaluation Methods

#### I. Adjustments to Foundational Evaluation Data

Where objective adjustment factors arise for commercial banks, the following performance evaluation indicators shall be correspondingly adjusted:

(1) Upon profit fluctuations, economic value added, labour cost profit margin, net profit attributable to labour, per capita tax and profit remittance, return on net assets, (state-owned) capital preservation and appreciation rate, and dividend remittance ratio shall be adjusted accordingly;

(2) Where assets undergo changes, corresponding adjustments shall be made to Economic Value Added (EVA), non-performing loan ratio, non-performing loan growth rate, provision coverage ratio, liquidity ratio, capital adequacy ratio, (state-owned) capital preservation and appreciation rate, return on net assets, etc.

#### II. Methodology for Calculating Industry Benchmarks

(1) Excluded commercial bank data primarily includes:

1. Data incompatible with the calculation model due to the economic characteristics of the evaluation indicators, such as data yielding negative denominators when calculating relative values;

2. Data from commercial banks exhibiting significant deviations from normal operations, such as those undergoing suspension, receivership, or business liquidation;

3. Commercial bank data with incomplete opening or previous year figures.

3. Commercial bank data with incomplete opening balances or prior-year figures.

(2) Based on the commercial bank data within the constructed sample database, the Ministry of Finance employs

the segmented averaging method to calculate the standard value for each financial indicator. Specific steps include:

1. Sorting the financial indicators of the sample data in descending order by actual value (or ascending order for inverse indicators);

2. Dividing the sorted samples into six equal segments: the top 25% constitute the first segment, the top 50% the second segment, and the remaining samples the third segment;

2. Divide the sorted samples into six equal segments: the first segment comprises the top 25% of samples, the second segment the top 50%, the third segment all samples,

the fourth segment the bottom 60%, the fifth segment the bottom 40%, and the sixth segment the bottom 20%;

3. Calculate the average value for each segment of sample financial indicators. The averages for the six segments are designated as the 'excellent value', 'good value', 'average value', 'lower value', 'poor value', and 'worst value' for that financial indicator respectively;

3. Calculate the average value of each segment's financial indicator, designating the six segment averages as the 'excellent', 'good', 'average',

'below average', "poor", and 'very poor' values for that indicator respectively. The corresponding standard coefficients for the six evaluation tiers are 1.0, 0.8, 0.6, 0.4, 0.2, and 0;

4. For financial indicators in the Commercial Bank Performance Evaluation Index System that require categorisation based on bank-wide averages of net assets, total profits, etc.,

categorise indicators by scale before applying the segmented averaging method to calculate the benchmark value for each category.

### III. Methodology for Historical Benchmark Value Calculation

Based on the foundational data provided by commercial banks covering the preceding five years, the Ministry of Finance and provincial finance departments shall calculate historical benchmark values for both positive and negative indicators. The specific steps include:

(a) Calculate the minimum, average, and maximum values for each financial indicator over the preceding five years.

departments shall calculate historical benchmark standard values for positive and negative indicators. Specific steps

include:

(1) Calculate the minimum, average, and maximum values of financial indicators over the preceding five years.

(2) For the minimum, average, and maximum values of the preceding five years, apply upward or downward adjustments by a specified percentage to categorise positive and negative indicators into

the following six tiers:

1. For positive indicators: - Tier 1: 20% below the lowest value of the preceding five years; - Tier 2: 10% below the lowest value of the preceding five years; - Tier 3: equal to

the lowest value of the preceding five years; - Tier 4: equal to the average value of the preceding five years; - Tier 5: equal to the highest value of the preceding five years; - Tier 6: 10% above the highest value of the preceding five years.

2. For negative indicators: - Tier 1: 20% above the lowest value of the preceding five years;

2. For reverse indicators: Tier 1 is set at 20% above the highest value over the preceding five years; Tier 2

is set at 10% above the highest value over the preceding five years; Tier 3 is set at the highest value over the preceding five years; Tier 4

is set at the average value over the preceding five years; Tier 5 is set at the lowest value over the preceding five years; Tier 6 is set at

10% below the lowest value over the preceding five years.

(iii) The sixth to first tiers in both positive and reverse indicators shall respectively represent

the 'excellent', 'good', 'average', 'below average',

"poor", and 'very poor' values for that financial indicator. The corresponding standard coefficients for the six-tier evaluation criteria are

1.0, 0.8, 0.6, 0.4, 0.2, and 0 respectively.

(iv)

For financial indicators where five-year historical data is difficult to obtain, the most recent five years' data may be selected to calculate the standard value following the aforementioned steps.

#### IV. Comprehensive Calculation Method

For performance evaluation indicators employing a comprehensive approach, both industry benchmarking and historical benchmarking evaluation methods shall be selected to comprehensively assess the same indicator. Specific steps include:

(1) Calculate the standard value for each performance evaluation indicator according to the aforementioned industry benchmarking and historical benchmarking standard value calculation methods.

(2) Compare the calculated standard value of the performance evaluation indicator with the corresponding standard value of the commercial bank.

(2) Compare the commercial bank's adjusted actual indicator values against the benchmark values for its sector, calculating the indicator scores for both industry benchmarking and historical benchmarking.

(3) Calculate the composite indicator score using a weighting of 80% for industry benchmarking and 20% for historical benchmarking.

(4)

#### Five. Performance Evaluation Bonus and Penalty Items

(i) Commercial banks demonstrating vigorous, precise, and appropriate implementation of the Central Committee and State Council's policies and directives regarding serving the real economy, preventing financial risks, and deepening financial reforms—such as supporting poverty alleviation and rural revitalisation strategies—shall receive 1-5 bonus points.

(ii) For adverse events occurring during the evaluation period (calendar year) of assessed commercial banks, downgrades or point deductions shall be applied following verification.

1. Downgrade for risk incidents: Commercial banks and their responsible officers involved in major illegal or disciplinary cases or significant asset loss incidents attributable to current-period responsibility, causing major adverse social impact, shall have their evaluation level downgraded according to the impact severity.

Normal asset write-offs shall not trigger downgrades.

2. Downgrade for risk incidents: Commercial banks and their responsible officers involved in major illegal or disciplinary cases or significant asset loss incidents

1. Downgrade for risk incidents: Commercial banks and their responsible officers involved in major violations of laws or regulations, or significant asset losses attributable to their responsibility during the period, causing major adverse social impact, shall have their evaluation level downgraded according to the severity of the impact; normal asset impairment provisions are excluded from this category.

2. Penalty point deduction for regulatory violations: Commercial banks violating relevant regulatory provisions or wage management regulations shall incur a deduction of 1-5 points based on the handling and penalties imposed by the relevant authorities.

3. Point deduction or downgrade for information quality issues: Commercial banks failing to provide evaluation-related basic information as required, or providing false basic information, shall incur a deduction of 1-5 points based on the handling and penalties imposed by the relevant authorities. In serious cases, the evaluation level shall be downgraded.

### 3. Information Quality Penalties or Downgrades:

Commercial banks failing to provide required evaluation baseline information or submitting false data shall incur 1-5 penalty points based on relevant authorities' sanctions. Serious cases warrant downgrades.

Commercial banks reporting net profit growth (or decline) exceeding:

- 10% in preliminary financial reports versus final accounts: 1 point deduction - 15%: 1.5 points deduction - 20%: 2 points deduction

2 points; exceeding 25% results in a deduction of 2.5 points; exceeding 30% results in a deduction of 3 points;

4. Deduction for disorderly establishment of subsidiaries: Commercial banks that violate relevant regulatory provisions by

indiscriminately establishing third-tier or higher subsidiaries (excluding SPVs when calculating tiers) with investment decision-making authority shall incur a deduction of 1-5 points based on the circumstances of establishment;

5. Penalties for inadequate implementation of national policies: Where the following circumstances are verified in implementing the Central Committee and State Council's policies and directives on serving the real economy, preventing financial risks, and deepening financial reforms,

1-5 points shall be deducted,

with relevant entities and individuals held accountable according to the severity of violations:

(1) Illegally granting temporary extensions for principal and interest repayments on corporate loans without regulatory approval;

(2) Failing to proactively engage with corporate needs or promptly process applications;

(2) Failure to proactively engage with enterprise needs or promptly process applications;

(3) Processing that fails to meet requirements for targeted, precise support;

(4) Failure to report to financial regulatory authorities upon discovering fraudulent or non-compliant enterprise activities, or failure to cease extending loan deferral policy support and financing assistance;

(5) Collusion with enterprises to submit false applications for temporary deferrals of principal and interest repayments.

### VI. Grading Thresholds

Financial institutions' performance evaluation results shall use 80, 65, 50, and 40 points as the score thresholds for determining evaluation categories.

(1) Evaluation scores of 80 points or above (inclusive) shall be classified as Excellent (A), further subdivided into three tiers:

AAA  $\geq$  95 points; 95 points > AA  $\geq$  85 points; 85 points > A  $\geq$  80 points.

(b) Scores of 65 or above (inclusive) but below 80

are classified as Good (B), subdivided into three tiers:

80 > BBB  $\geq$  75; 75 > BB  $\geq$  70; 70 > B  $\geq$  65.

(c) Scores of 50 or above (inclusive) but below 65

is classified as Average (C), subdivided into two levels:

65 points > CC  $\geq$  60 points; 60 points > C  $\geq$  50 points.

(4) Evaluation scores of 40 points or above (inclusive) but below 50 points are classified as Low (D).

(5) Evaluation scores below 40 points are classified as Poor (E).