

# Ping An Bank Co., Ltd.

## 2017 Annual Report Summary

### I. Important Notes

1.1. This annual report summary is extracted from the full the text of annual report (hereinafter referred to as the “**2017 Annual Report**” or “**Annual Report**”). To comprehensively understand the operating results, financial position and future development plans of Ping An Bank Co., Ltd. (hereinafter referred to as “**Ping An Bank**” or the “**Bank**”), investors should carefully read the full text of the Annual Report, which is available on the media designated by China Securities Regulatory Commission.

1.2. The board of directors (hereinafter referred to as the “**Board**”), the supervisory committee, the directors, the supervisors and senior management of the Bank guarantee the authenticity, accuracy and completeness of the contents of the Annual Report, in which there are no false representations, misleading statements or material omissions, and are severally and jointly liable for its contents.

1.3. The 15th meeting of the 10th session of the Board of the Bank deliberated the 2017 Annual Report together with its summary. The meeting required 14 directors to attend, and 13 directors attended the meeting. Director Guo Jian did not attend the meeting for business affairs and entrusted director Yao Bo to exercise voting rights on behalf of him. This Annual Report was approved unanimously at the meeting.

1.4. The 2017 financial report prepared by the Bank was audited by PricewaterhouseCoopers Zhong Tian LLP (hereinafter referred to as “**PwC**”) according to the China standards on Auditing and PwC issued a standard unqualified auditors’ report.

1.5. Xie Yonglin (the Bank’s Chairman), Hu Yuefei (the President), and Xiang Youzhi (the CFO/the head of the Accounting Department) guarantee the authenticity, accuracy and completeness of the financial report contained in the 2017 Annual Report.

1.6. Proposals of the reporting period for profit distribution or conversion of public reserve to share capital deliberated by the Board: cash dividend distribution of RMB1.36 per 10 shares (tax inclusive) to all shareholders based on the total share capital of the Bank of 17,170,411,366 shares as at 31 December 2017. There was no proposal to issue bonus shares or to convert public reserve to share capital.

Proposal of the reporting period for profit distribution for preference shares approved by the Board

Applicable      Not applicable

Time of distribution	Dividend yield	Amount of distribution (in RMB) (tax inclusive)	Meets prerequisites for distribution and complies with relevant procedures	Dividend payment method	Accumulation of dividends or not	Participation in retained earnings or not
7 March 2017	4.37%	874,000,000.00	Y	Cash payment once per year	N	N

## II. Company profile

### 1. Company information

Stock Abbreviation	Ping An Bank	Stock Code	000001
Traded on	Shenzhen Stock Exchange		
Contact Information	Secretary of the Board	Representative of Securities Affairs	
Name	Zhou Qiang	Lv Xuguang	
Office Address	Board Office of Ping An Bank 5047 East Shennan Road, Shenzhen, Guangdong, the PRC	Board Office of Ping An Bank 5047 East Shennan Road, Shenzhen, Guangdong, the PRC	
Facsimile	(0755) 82080386	(0755) 82080386	
Telephone	(0755) 82080387	(0755) 82080387	
E-mail	pabdsh@pingan.com.cn	pabdsh@pingan.com.cn	

### 2. Overview of main businesses or services during the reporting period

#### Main businesses of the Bank

Ping An Bank is a national joint-stock commercial bank. As approved by relevant regulators, the Bank engages in the following commercial banking activities: (I) absorption of public deposits; (II) advances of short, medium and long-term loans; (III) domestic and overseas settlement; (IV) bill acceptance and discounting; (V) issuance of financial bonds; (VI) agent of issuing, cashing and underwriting government bonds; (VII) trading of government bonds and financial bonds; (VIII) interbank lending and borrowing; (IX) trade foreign exchange on its behalf and as an agent; (X) bank cards; (XI) provision of letter of credit service and guarantee; (XII) agency for collection and payment and insurance agency; (XIII) safe deposit box service; (XIV) foreign exchange settlement and sale; (XV) off-shore banking; (XVI) asset custody; (XVII) gold service; (XVIII) financial advisor and credit investigation, consultation and witness services; and (XIX) other businesses approved by relevant regulators.

#### Development status of the banking industry

The priorities of China's financial industry in the next few years are to prevent financial risks and serve the real economy. The banking industry must implement guiding principles from the 19th Communist Party of China ("CPC") National Congress and embed them in its daily activities, fully return to its primary mission to serve the real economy for addressing the changing key issues and meeting needs of the Chinese society and endeavour to maintain high-quality development, and make solid contributions to overcoming the three major challenges, i.e., prevention and mitigation of major risks, precise poverty alleviation, and pollution prevention and remediation. With exhaustive and robust researches and after enlightened judgments on macro and industrial changes, the Bank adheres to the transformation and development strategy to be technology-driven, pursue breakthroughs in retail banking, and reinvent in its corporate banking, and endeavour to become a "leading intelligent retail bank" and an "excellent exquisite wholesale bank".

## III. Major accounting data and financial indicators

### 1. Major accounting data and financial indicators

Whether the Company needs to adjust or restate retrospectively the accounting data for previous years

Yes     No

Changes in accounting policies mainly affected the presentation of the financial statements and the comparative figures of previous years had no significant impact on the financial statements. Therefore, no adjustment was made. See "II. Summary of significant accounting policies and accounting estimates 40. Changes in significant accounting policies and accounting estimates" in "Section XI Financial Report" of *2017 Annual Report of Ping An Bank Co., Ltd.* for details.

(In RMB million)

Item	31 December 2017	31 December 2016	31 December 2015	Year-on-year change
Total assets	3,248,474	2,953,434	2,507,149	9.99%
Shareholders' equity	222,054	202,171	161,500	9.83%
Shareholders' equity attributable to ordinary shareholders	202,101	182,218	161,500	10.91%
Share capital	17,170	17,170	14,309	-
Net asset per share attributable to ordinary shareholders (RMB/share)	11.77	10.61	9.41	10.91%
Item	2017	2016	2015	Year-on-year change
Operating income	105,786	107,715	96,163	(1.79%)
Operating profit before impairment losses on assets	73,148	76,297	59,380	(4.13%)
Impairment losses on assets	42,925	46,518	30,485	(7.72%)
Operating profit	30,223	29,779	28,895	1.49%
Profit before tax	30,157	29,935	28,846	0.74%
Net profit attributable to shareholders of the Company	23,189	22,599	21,865	2.61%
Net profit attributable to shareholders of the Company after non-recurring gains/losses	23,162	22,606	21,902	2.46%
Net cash flows from operating activities	(118,780)	10,989	(1,826)	(1,180.90%)
<b>Ratio per share (RMB/share):</b>				
Basic/diluted earnings per share (EPS)	1.30	1.32	1.30	(1.52%)
Basic EPS after non-recurring gains/losses	1.30	1.32	1.30	(1.52%)
Net cash flows from operating activities per share	(6.92)	0.64	(0.11)	(1,181.25%)
<b>Financial ratio (%):</b>				
Return on total assets	0.71	0.77	0.87	-0.06 percentage point
Average return on total assets	0.75	0.83	0.93	-0.08 percentage point
Weighted average return on net assets	11.62	13.18	14.94	-1.56 percentage points
Weighted average return on net assets (net of non-recurring gains/losses)	11.61	13.18	14.96	-1.57 percentage points

Note: On 7 March 2016, the Bank issued non-cumulative preference shares of RMB20 billion in a non-public way. In March 2017, the Bank paid dividends on preference shares of RMB874 million (tax inclusive) for the year. The interest period for the dividends is from 7 March 2016 to 6 March 2017. In calculating the "EPS" and "weighted average return on net assets" for 2017, numerators were net of the aforementioned dividends on preference shares paid.

#### Total share capital of the Company as at the trading day prior to disclosure

Total share capital of the Company as at the trading day prior to disclosure (shares)	17,170,411,366
Fully diluted EPS calculated based on the latest share capital (RMB/share)	1.30

Has the share capital ever changed and influenced the amount of the owners' equity because of newly issued shares, additional issue, allotment, exercising of stock option, or repurchasing, etc. from the end of the reporting period to the disclosure date of the Annual Report?

Yes       No

Whether there are corporate bonds

Yes       No

## Quarterly financial indicators

(In RMB million)

Item	First Quarter of 2017	Second Quarter of 2017	Third Quarter of 2017	Fourth Quarter of 2017
Operating income	27,714	26,355	25,762	25,955
Net profit attributable to shareholders of the Company	6,214	6,340	6,599	4,036
Net profit attributable to shareholders of the Company after non-recurring gains/losses	6,212	6,300	6,618	4,032
Net cash flows from operating activities	(115,008)	(13,172)	(29,807)	39,207

Have the above financial indicators or their totals differed significantly from the relevant financial indicators in the quarterly report and half-year report disclosed by the Company?

Yes       No

## Information of loans and deposits

(In RMB million)

Item	31 December 2017	31 December 2016	31 December 2015	Year-on-year change
<b>I. Deposits due to customers</b>	<b>2,000,420</b>	<b>1,921,835</b>	<b>1,733,921</b>	<b>4.09%</b>
Including: Corporate deposits	1,659,421	1,652,813	1,453,590	0.40%
Personal deposits	340,999	269,022	280,331	26.76%
<b>II. Total loans and advances to customers</b>	<b>1,704,230</b>	<b>1,475,801</b>	<b>1,216,138</b>	<b>15.48%</b>
Including: Corporate loans	855,195	934,857	774,996	(8.52%)
General corporate loans	840,439	920,011	761,331	(8.65%)
Discounted bills	14,756	14,846	13,665	(0.61%)
Personal loans	545,407	359,859	293,402	51.56%
Credit card receivables	303,628	181,085	147,740	67.67%
Provision for impairment of loans and advances to customers	(43,810)	(39,932)	(29,266)	9.71%
Net loans and advances to customers	1,660,420	1,435,869	1,186,872	15.64%

Note: Pursuant to the *Notice on the Statistical Standards for Adjusting the Deposits and Loans of the Financial Institutions by the People's Bank of China* (Yin Fa [2015] No. 14), starting from 2015, the deposits placed by non-deposit financial institutions at deposit financial institutions are accounted for as "Total Deposits", whereas the loans extended by deposit financial institutions to non-deposit financial institutions are accounted for as "Total Loans". Based on the aforementioned statistical standards, as at 31 December 2017, the total deposits and the total loans amounted to RMB2,436.5 billion and RMB1,730.4 billion, respectively.

### Non-recurring gains/losses

During the reporting period, no items of non-recurring gains/losses as defined/stated pursuant to the *Explanatory Announcement on Information Disclosure by Companies Publicly Offering Securities No. 1 – Non-recurring Gains/Losses* were defined as recurring gains/losses.

(In RMB million)

Item	2017	2016	2015	Year-on-year change
Gains or losses on disposal of non-current assets	101	(178)	(24)	Negative in the previous year
Gains/losses on contingency	(1)	1	(1)	(200.00%)
Other non-operating income and expenses except the above items	(65)	168	(24)	(138.69%)
Income tax effect	(8)	2	12	(500.00%)
Total	27	(7)	(37)	Negative in the previous year

Note: The non-recurring gains/losses shall refer to the meaning as defined in the *Explanatory Announcement on Information Disclosure by Companies Publicly Offering Securities No. 1 – Non-recurring Gains/Losses*.

### 2. Supplementary financial ratios

(Unit: %)

Item	2017	2016	2015	Year-on-year change
Cost/income ratio	29.89	25.97	31.31	+3.92 percentage points
Credit costs	2.55	3.37	2.56	-0.82 percentage point
Deposit-loan spread	3.99	4.49	4.89	-0.50 percentage point
Net interest spread (NIS)	2.20	2.60	2.62	-0.40 percentage point
Net interest margin (NIM)	2.37	2.75	2.81	-0.38 percentage point

Notes: Credit costs = credit provisions for the period / average loan balance (including discounted bills) for the period. In 2017, average loan balance (including discounted bills) of the Bank was RMB1,602.5 billion (2016: RMB1,348.5 billion). Net interest spread = average yield of interest-earning assets – average cost rate of interest-bearing liabilities; Net interest margin = net interest income / average balance of interest-earning assets.

### 3. Supplementary regulatory indicators

(Unit: %)

Item	Standard level of indicator	31 December 2017	31 December 2016	31 December 2015
Liquidity ratio (RMB and foreign currency)	≥25	52.23	49.48	54.29
Liquidity ratio (RMB)	≥25	52.57	47.62	52.14
Liquidity ratio (foreign currency)	≥25	55.41	99.04	103.30
Loan/deposit ratio including discounted bills (RMB and foreign currency)	N/A	83.58	75.21	69.01
Liquidity coverage ratio	≥90	98.35	95.76	140.82
Capital adequacy ratio	≥10.5	11.20	11.53	10.94
Tier one capital adequacy ratio	≥8.5	9.18	9.34	9.03
Core tier one capital adequacy ratio	≥7.5	8.28	8.36	9.03
Ratio of loans to the single largest customer to net capital	≤10	5.20	5.19	3.46
Ratio of loans to top 10 customers to net capital	N/A	22.79	25.78	20.16
Ratio of accumulated foreign exchange exposure position to net capital	≤20	1.22	4.11	1.71
Pass loans flow rate	N/A	5.20	7.14	6.92
Special mentioned loans flow rate	N/A	30.41	37.56	29.13
Substandard loans flow rate	N/A	73.69	43.83	49.42
Doubtful loans flow rate	N/A	64.37	71.14	85.27
Non-performing loan (NPL) ratio	≤5	1.70	1.74	1.45
Provision coverage ratio	≥150	151.08	155.37	165.86
Provision to loan ratio	≥2.5	2.57	2.71	2.41

Note: Regulatory indicators are shown in accordance with the regulatory standards.

Pursuant to the requirements of the *Administrative Measures for Liquidity Risks of Commercial Banks (for Trial Implementation)*, the liquidity coverage ratio of commercial banks shall reach 100% by the end of 2018; during the transitional period, the liquidity coverage ratio shall reach 90% by the end of 2017.

#### IV. Share capital and shareholders

##### 1. Number of ordinary shareholders and preference shareholders with recovered voting rights, and shareholdings of top 10 shareholders

(Unit: share)

Total number of ordinary shareholders as at the end of the reporting period	343,994	Total number of ordinary shareholders as at the end of the month before the disclosure date of the Annual Report	392,992	Total number of preference shareholders with recovered voting rights as at the end of the reporting period (if any)	-	Total number of preference shareholders with recovered voting rights as at the end of the month before the disclosure date of the Annual Report (if any)	-	
<b>Shareholdings of top 10 shareholders</b>								
Name of shareholder	Nature of shareholder	Number of shares held at the end of the reporting period	Shareholding (%)	Changes during the reporting period	Number of restricted shares held	Number of unrestricted shares held	Pledged or frozen	
							Status of shares	Number of shares
Ping An Insurance (Group) Company of China, Ltd.-the Group -proprietary fund	Domestic legal entity	8,510,493,066	49.56	-	252,247,983	8,258,245,083	-	-
Ping An Life Insurance Company of China, Ltd. - proprietary fund	Domestic legal entity	1,049,462,784	6.11	-	-	1,049,462,784	-	-
China Securities Finance Corporation Limited	Domestic legal entity	490,175,371	2.85	10,804,603	-	490,175,371	-	-
Ping An Life Insurance Company of China, Ltd. -traditional - ordinary insurance products	Domestic legal entity	389,735,963	2.27	-	-	389,735,963	-	-
Hong Kong Securities Clearing Company Limited	Overseas legal entity	364,769,094	2.12	357,076,834	-	364,769,094	-	-
Central Huijin Investment Company Limited	Domestic legal entity	216,213,000	1.26	-	-	216,213,000	-	-
China Electronics Shenzhen Company	Domestic legal entity	186,051,938	1.08	-5,200,000	-	186,051,938	-	-
Henan Hongbao (Group) Co., Ltd.	Domestic legal entity	78,858,987	0.46	73,259,130	-	78,858,987	-	-
China Southern Asset Management - Agricultural Bank - South Zhongzheng Financial Asset Management Plan	Domestic legal entity	57,809,862	0.34	-5,921,298	-	57,809,862	-	-
Xinhua Life Insurance Co., Ltd. — dividend - dividend for individual -018L-FH002 Shen	Domestic legal entity	53,493,502	0.31	53,493,502	-	53,493,502	-	-
Strategic investors or general legal entities (if any) who become the top 10 shareholders due to placement of new shares	None							
Description of the related relationship or concerted action of the above shareholders	1. Ping An Life Insurance Company of China, Ltd. is a controlled subsidiary of and acting in concert with the Ping An Insurance (Group) Company of China, Ltd. “Ping An Insurance (Group) Company of China, Ltd. – the Group - proprietary fund”, “Ping An Life Insurance Company of China, Ltd. - proprietary fund” and “Ping An Life Insurance Company of China, Ltd. - traditional - ordinary insurance product” are related parties. 2. The Bank is not aware of any related relationship or concerted action among any of other shareholders.							
Description of the shareholders who engage in securities margin trading business	None							

## 2. Total number of preference shareholders of the Company and shareholdings of top 10 preference shareholders

Applicable      Not applicable

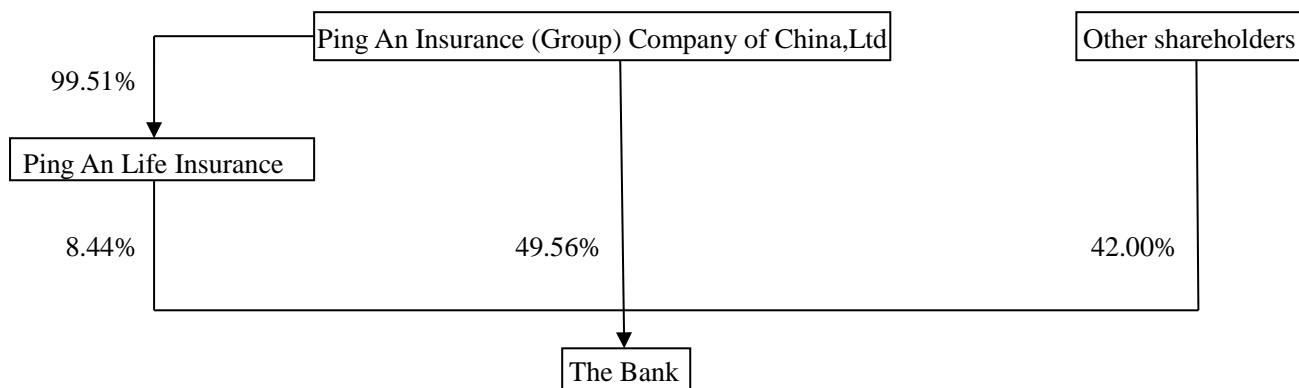
(Unit: share)

Total number of preference shareholders as at the end of the reporting period		15		Total number of preference shareholders as at the end of the month before the disclosure date of the Annual Report			15	
Shareholding of shareholders with more than 5% preference shares or top 10 preference shareholders								
Name of shareholder	Nature of shareholder	Shareholding (%)	Number of shares held at the end of the reporting period	Changes during the reporting period	Number of restricted shares held	Number of unrestricted shares held	Pledged or frozen	
							Status of shares	Number of shares
Ping An Life Insurance Company of China, Ltd. - dividend - individual dividend	Domestic legal entity	29.00	58,000,000	-	-	58,000,000	-	-
Ping An Life Insurance Company of China, Ltd. - universal - individual universal	Domestic legal entity	19.34	38,670,000	-	-	38,670,000	-	-
Ping An Property & Casualty Insurance Company of China, Ltd. - traditional - ordinary insurance products	Domestic legal entity	9.67	19,330,000	-	-	19,330,000	-	-
China Post & Capital Fund - Hua Xia Bank - Hua Xia Bank Co., Ltd.	Domestic legal entity	8.95	17,905,000	-	-	17,905,000	-	-
Bank of Communications Schroder Asset Management - Bank of Communications - Bank of Communications Co., Ltd.	Domestic legal entity	8.95	17,905,000	-	-	17,905,000	-	-
Bank of China Limited Shanghai Branch	Domestic legal entity	4.47	8,930,000	-	-	8,930,000	-	-
Postal Savings Bank of China Domestic Co., Ltd.	Domestic legal entity	2.98	5,950,000	-	-	5,950,000	-	-
China Resources Sztic Trust Co., Ltd. - Investment No. 1 List - Capital Trust	Domestic legal entity	2.98	5,950,000	-	-	5,950,000	-	-
Huabao Trust Co. Ltd. - Investment No. 2 Capital Trust	Domestic legal entity	2.98	5,950,000	-	-	5,950,000	-	-
Merchants Wealth - Postal Savings Bank - Postal Savings Bank of China Co., Ltd.	Domestic legal entity	2.98	5,950,000	-	-	5,950,000	-	-
Description of different requirements on other terms of preference shares held other than dividend distribution and residual property distribution	N/A							
Description of the related relationship or concerted action among top 10 preference shareholders and between top 10 preference shareholders and top 10 ordinary shareholders	<p>1. Ping An Life Insurance Company of China, Ltd. and Ping An Property &amp; Casualty Insurance Company of China, Ltd. are controlled subsidiaries of and acting in concert with the Ping An Insurance (Group) Company of China, Ltd. "Ping An Insurance (Group) Company of China, Ltd. - the Group - proprietary fund", "Ping An Life Insurance Company of China, Ltd. - proprietary fund", "Ping An Life Insurance Company of China, Ltd. - traditional - ordinary insurance product", "Ping An Life Insurance Company of China, Ltd. - dividend - individual dividend", "Ping An Life Insurance Company of China, Ltd. - universal - individual universal" and "Ping An Property &amp; Casualty Insurance Company of China, Ltd. - traditional - ordinary insurance products" are related parties.</p> <p>2. The Bank is not aware of any related relationship or concerted action among any of other shareholders.</p>							



**3. The ownership and controlling relationship between the Company and its de facto controller are shown in the following diagram**

There is no de facto controller of the Bank. There was no change in the controlling shareholder of the Bank during the reporting period. A diagram showing the relationship between the Bank and its controlling shareholder is as follows:



**V. Corporate bonds**

Applicable    Not applicable

**VI. Discussion and Analysis of Operations**

**(I) Brief introduction to the operations during the reporting period**

The successful 19th CPC National Congress in 2017 marked the beginning of a new era of the socialism with Chinese characteristics. During the whole year of 2017, the overall domestic economy remained stable. “The Belt and Road” initiatives were advanced steadily. The supply-side structural reform generated initial results. In compliance with the national strategy and economic and financial trends and under the guidance of transformation strategy to “be technology-driven, pursue breakthroughs in retail banking, and reinvent its corporate banking”, the Bank attached great importance to scientific and technological innovation and technology application, to comprehensively promote the transformation of intelligent retail banking and the transformation of company business from extensive growth driven by scale to intensive growth driven by value and quality. In addition, the Bank made solid efforts to prevent and mitigate all types of financial risks and enhanced the capability of serving real economy, as encouraging results began to show for these efforts.

In the competition for the 2017 Top Listing of Chinese Financial Institutions - Gold Dragon Awards sponsored by the *Financial News*, the Bank won the grand award of Best Joint-stock Bank of the Year for four consecutive years. In the “12th Session of 21st Century Asian Finance Competitiveness Award” sponsored by 21st Century Media, the Bank won the award of “2017 Asian Outstanding Retail Bank”, and the Bank’s Chairman Xie Yonglin was awarded “the Banker of 2017”. In addition, the Bank successively won “the Best (Joint-stock) Trading Finance Bank of China” at the 18th Summit for Asian Bankers, “Award for Exemplary Performance in Government-Related Services in China” at the 2nd National Government Affairs Service Exposition, China Excellence in Finance Award – Outstanding Strategic Innovation Bank, “Annual Outstanding Credit Card Service Bank” and other awards. In 2017, the Bank’s business performance had the following characteristics:

**1. Robust business development**

In 2017, the Bank recorded operating income of RMB105,786 million, representing a year-on-year decrease of

1.79% (or a year-on-year increase of 1.67% against the operating income as calculated before the business tax to value-added tax reform), of which the net fee and commission income amounted to RMB30,674 million, representing a year-on-year increase of 10.10%, mainly due to the increase in fee from credit card business. The net profit was RMB23,189 million, representing a year-on-year increase of 2.61%. The profitability maintained stable.

At the end of 2017, the Bank's total assets amounted to RMB3,248,474 million, up 9.99% over the end of last year; the balance of deposits due to customers was RMB2,000,420 million, up 4.09% over the end of last year. The total loans and advances to customers (including discounted bills) amounted to RMB1,704,230 million, representing an increase of 15.48% as compared with the end of last year, primarily due to the increase in retail loans. In addition, the Bank proactively responded to market changes and expanded its debt financing sources. In July 2017, the Bank successfully issued financial bonds of RMB15 billion in the interbank bond market.

## **2. Significant achievements in retail transformation**

At the end of 2017, assets under management (AUM) of retail customers of the Bank amounted to RMB1,086,688 million, up 36.25% over the end of the previous year; the number of retail customers (including the users of its debit cards and credit cards) reached 69,905.2 thousand, up 33.43% over the end of the previous year, among which private wealth customers and qualified private banking customers were 456.5 thousand and 23.5 thousand respectively, representing an increase of 32.77% and 39.05% over the end of the previous year; the current credit card accounts reached 38,340 thousand, an increase of 49.73% over the end of the previous year. The balance of retail deposits was RMB340,999 million, an increase of 26.76% over the end of the previous year, and the balance of retail loans (including credit cards) was RMB849,035 million, an increase of 56.95% over the end of the previous year, with the proportion increased by 13.17 percentage points to 49.82%; the transaction volume of credit cards amounted to RMB1,547,202 million, rising by 38.01% year on year. The market share of its interbank credit card POS transactions continued to increase, with a total of 14,820 thousand monthly active users of Ping An Pocket Bank APP, making Ping An Bank a leading contender among joint-stock banks. In 2017, the operating income of retail business reached RMB46,692 million, a year-on-year increase of 41.72%, accounting for 44.14% of the Bank's total operating income; the net profit of retail business reached RMB15,679 million, a year-on-year increase of 68.32%, accounting for 67.62% of the Bank's total net profit.

## **3. Continuous structural optimization of corporate banking**

In its ongoing efforts to optimize its corporate banking structure, the Bank adheres to the "quality is efficiency" philosophy, and has determined two strategic approaches, i.e. industrial specialisation and a combination of light assets and light capital. In respect of industrial specialisation aspect, the Bank endeavoured to build its specialisation advantages in the specific industries, and proactively applied the "C + SIE + R" and "Commercial bank + Investment bank + Investment" industry-specific financial models to support the development of real economy, with the cumulative deposit balance of the Industrial Business Division totalling RMB165,494 million and the balance of assets under management totalling RMB490,487 million at the end of 2017; meanwhile, it prepared a Government Finance Division to support services related to government finance, with the deposit balance of government customers totalling RMB261,709 million at the end of 2017, an increase of 8.44% over the end of the previous year. In terms of "light assets and light capital", the Bank vigorously developed low-risk-weight and low/zero capital occupation businesses, made full use of the comprehensive financial resources and platform to expand channel cooperation and develop new light capital and light assets income sources. In 2017, 76 investment banking projects were launched, with an aggregate scale of RMB32.9 billion. In 2017, the Bank had completed underwriting of RMB105,105 million bonds, and the market share rapidly increased to 2.65% from 1.90% at the beginning of the year. In 2017, the Bank recorded custody fee income of RMB3,046 million; at the end of 2017, the net value of assets under custody amounted to RMB6.13 trillion,

representing an increase of 12.25% over the end of last year. At the end of 2017, the number of customers with gold deposit accounts reached 5,104.2 thousand, representing an increase of 1,504.2 thousand or 41.78%.

#### **4. Continuous expansion of technology application scenarios**

In terms of retail APPs, the formerly separate “Pocket Bank”, “Credit Card” and “Ping An Orange” were successfully integrated into Pocket Bank 4.0, in which fingerprint, voiceprint and face recognition technology were fully applied. As a result, customer experience was greatly enhanced. Meanwhile, the Bank implemented “AI + Innovation” to comprehensively support its risk control, marketing and operation. “AI + AnBot” had been applied in the Pocket Bank APP, and “off-line intelligent robots” had been involved in interactive marketing in the outlets; “AI + Advisor” provided personalized investment advice based on the varied needs of different types of customers, and through iterative upgrades, the Pocket Bank launched various new functions, including portfolio advisory, insurance zone, investment advisory live, information updates and other new functions, and began to support one-click order of product portfolio; “AI + Risk Control” deployed risk models to comprehensively monitor and assess risks.

The Bank applied new technologies such as big data, blockchain and artificial intelligence to improve the comprehensive service capability of small and medium-sized enterprises. First, it proactively developed professional platform for serving small and medium-sized enterprises, to build a mobile integrated service system to provide payment and settlement, and wealth management and value-added services for small and medium-sized enterprise customers; second, the Bank established SME credit system and preliminarily developed KYB model to provide on-line, batch and intelligent financing services for small and medium-sized enterprises. At the same time, the Bank continued to expand the clout of four platforms of “Orange E Net, Cross-border E-commerce, *Baoliyun* and *Hang-E-Tong*” through scientific and technological power and further provided customers with lean products and services.

#### **5. Organized and effective risk management**

In 2017, The Bank proactively coped with external risks and adjusted its business structure by increasing loans granted to retail business with better asset quality and pursuing continuous excellence in corporate business. Meanwhile, the Bank implemented strict control of incremental business risk, and conducted comprehensive investigation of existing loans to solve problems in an orderly way.

In addition, the Bank has taken more proactive measures about the disposal of non-performing assets. First, the Bank implemented centralized management for operating units with higher asset quality pressure and adopted differential assessment mechanism; second, the special asset management division was established to implement a centralized, vertical and specialized management for non-performing loans throughout the Bank; third, with the macroeconomic restructuring direction becoming gradually clear, the Bank adopted the approach of proactive collection to dispose of non-performing assets, and increased efforts to take legal actions against the loans granted to troubled companies with outdated industrial capacity, excessive capacity and poor management; fourth, the Bank sped up the write-off of non-performing loans with a disposal of non-performing loans of RMB39,203 million through write-off in 2017, a year-on-year increase of 30.91%; fifth, the Bank implemented control measures to define the actions required regarding credit management to strengthen the whole-process control of credit risk.

At the end of 2017, the balance of provision for impairment of loans amounted to RMB43,810 million, representing an increase of 9.71% over the end of last year; the provision to loan ratio was 2.57%, down 0.14 percentage point as compared with the end of last year; the provision coverage ratio was 151.08%, down 4.29 percentage points as compared with the end of last year, in which the provision coverage ratio of loans overdue for more than 90 days was 105.67%, up 7.16 percentage points as compared with the end of last year; the non-performing loan ratio was 1.70%, representing a decrease of 0.04 percentage point over the end of last year,

in which the non-performing ratio of personal loans (including credit cards) was 1.18%, down 0.34 percentage point as compared with the end of last year. In 2017, the Bank's total non-performing assets recovered amounted to RMB9,528 million, representing a year-on-year increase of 81.62%, of which credit asset (loan principal) amounted to RMB8,815 million. For the loan principal recovered, the loans written-off amounted to RMB3,496 million and the non-performing loans not written off amounted to RMB5,319 million; 83% of non-performing assets recovered were recovered in cash and the rest was recovered in kind.

## **6. Foundation strengthening and efficiency enhancement**

The Bank continued to strengthen the optimization of organizational structure and personnel structure, conducted benchmarking against Internet financial institutions, and established an exclusive retail IT team with an overall service manpower of over 2,100 to fully support the intelligent transformation of retail banking. The Bank also established agility mechanism and vertical management and control coordination system to improve the working efficiency of retail organizations.

The Bank continued to implement the intelligent construction of outlets and set the layout of the outlets rationally. In August 2017, "Guangzhou Liuhua Branch", the first pure retail outlet of the Bank was officially opened, with the feature of "new image, new model and new future". It was built to be a new intelligent retail store. In 2017, the Bank newly established 10 branches, 2 (Yancheng Branch and Langfang Branch) of which were established in the fourth quarter. As at the end of 2017, the Bank had a total of 70 branches and a total of 1,079 operating agencies.

## **(II) Discussion and analysis of the main businesses**

### **1. Breakthroughs in retail banking**

In 2017, the Bank took the new advantage of comprehensive finance and scientific and technological innovation, focused on customers, optimized business process and service experience, gave full play to the advantageous business capability, and established matching strategy and safeguard mechanism to deepen the transformation of retail banking business.

#### **(1) Rapid growth and strong performance of retail banking**

At the end of 2017, the ending balance of assets under management (AUM) of retail customers of the Bank amounted to RMB1,086,688 million, representing an increase of 36.25% over the end of the previous year, and the number of retail customers (including debit and credit card customers) reached 69,905.2 thousand, an increase of 33.43% over the end of the previous year, among which private wealth customers and qualified customers of private banks reached 456.5 thousand and 23.5 thousand respectively, representing an increase of 32.77% and 39.05% over the end of the previous year; the current credit card accounts reached 38,340 thousand, an increase of 49.73% over the end of the previous year; the balance of retail deposits was RMB340,999 million, an increase of 26.76% over the end of the previous year and the balance of retail loans (including credit cards) was RMB849,035 million, an increase of 56.95% over the end of the previous year; the transaction volume of credit cards amounted to RMB1,547,202 million, rising by 38.01% year on year.

In 2017, the operating income of retail business reached RMB46,692 million, a year-on-year increase of 41.72%, accounting for 44.14% of the Bank's total operating income; the net profit of retail business reached RMB15,679 million, a year-on-year increase of 68.32%, accounting for 67.62% of the Bank's total net profit.

In 2017, the non-performing ratio of the Bank's retail business maintained stable with a slight decline. Non-performing ratio of retail loans (including credit cards) was 1.18%, down 0.34 percentage point from the end of last year, among which non-performing ratio of retail loans (excluding credit cards) was 1.18%, down 0.39 percentage point from the end of last year, non-performing ratio of retail loans (excluding credit cards and personal operating loans) was 0.35%, down 0.25 percentage point from the end of last year, and non-performing

ratio of credit cards was 1.18%, down 0.25 percentage point from the end of last year. The asset quality of credit cards remained stable with the new non-performing ratio in 2017 hit the lowest for the past three years. At the same time, the proportion of major loan products of retail (New Generation Loan, auto loans, credit cards) from not overdue to overdue for over 30 days continued to decline and the trend of early warning indicators continued to improve.

## **(2) Significant improvement of competitiveness of retail businesses**

In 2017, credit cards, as the pathbreaker in the Bank's retail transformation, firmly followed the path of technology-led retail intelligent transformation, and the credit card business continued to maintain rapid and steady growth. In the whole year of 2017, 15,090 thousand new credit cards were issued, a year-on-year increase of 80.0%; thanks to the Group's advantage of comprehensive finance, credit cards issued through the Group increased by 189.1% year on year. The total transaction volume of credit cards reached RMB1,547,202 million, representing a year-on-year increase of 38.01%; the balance of loans amounted to RMB303.6 billion, an increase of 67.67% over the end of last year; with the rapid growth of business, the Bank applied face recognition, equipment fingerprint, chain anti-fraud and other cutting-edge technologies to establish intelligent risk control system. As a result, the trend of credit card portfolio risk continued to be in a good prospect.

In 2017, the best customer experience featured with "fast, easy and good" on credit cards was deeply created based on the Internet platform, product system was enriched and hierarchical management over customers was deepened to satisfy the demand for credit cards of different customers. Additionally, service concept for credit cards was innovated and closed loop experience for users was built by leveraging Internet platform. In the stage of sales application, E application method was adopted throughout all channels, with the proportion of E applications increased by 25 percentage points over the beginning of the year; in the approval stage, the platform automation rate reached 80% and the approval efficiency was greatly improved owing to the new processes and technologies such as phase-by-phase approval and face recognition; in the payment stage, a prediction model for customer behaviours was established taking advantage of big data to provide accurate and timely limit service, with the approval rate of the number of authorized credit cards ranking top in the industry; customer satisfaction for credit cards continued to be improved and the Bank won the "2017 Best Customer Experience Credit Card Brand" of "Gold Shell Awards" elected by the 21st Century Business Herald and other customer experience awards.

The Bank's consumer finance business was focused on customer needs. On the premise of compliant operation, it took measures such as product upgrading, experience optimization and comprehensive risk control, and granted credit to new industries, new products and new formats in a reasonable way to boost the transformation of real economy and development of new consumer finance field. In 2017, the growth of consumer finance business remained stable. The accumulated consumer finance loans granted was RMB271,237 million and the balance of loans reached RMB356,353 million, an increase of 86.35% over the end of last year, among which the New Generation Loan business maintained a steady growth with a balance of RMB129,844 million and a non-performing ratio of 0.65%. Meanwhile, asset quality maintained in a good status. In 2017, The Bank was accelerating the model upgrading and product innovation of consumer finance through big data, Internet + and other scientific and technological means based on the behavior preferences and demand characteristics of various customers, so as to meet the consumer financing needs of customers at different stages and benefit more people. At the same time, the Bank actively opened up on-line channels and built a one-stop self-service consumer loan platform through Internet channels such as on-line banking, mobile banking, WeChat and portals. It fully utilized internet technology to enhance product competitiveness, realize intelligence and automation of the application of consumer finance services, enhance customer experience, operate on a going concern basis and boost consumer upgrading. In the future, operating loans and consumer loans in consumer finance business will be distinguished. On the one hand, the consumer finance business will focus on the demand for operating funds of small and micro

businesses, inclusive organizations and individuals under the requirement of regulating and promoting the high-quality development of finance services for small and micro businesses in the banking industry, and help resolve the difficulties in financing new product design and strict process control to meet the regulatory requirements of “significant increases in aggregate and accounts, and effective control over loan quality and comprehensive cost”. On the other hand, it will continue to practice inclusive finance, support the reasonable consumer finance demands of individuals based on the actual scenario and usage of consumer, further cultivate new consumer growth points and release the consumer potential of the public.

In 2017, the Bank’s cumulative new auto finance loans amounted to RMB118,384 million, a year-on-year increase of 44.20%; at the end of 2017, the balance of auto loans throughout the Bank was RMB130,517 million, up 37.01% over the end of last year. As a result, the Bank continued to maintain its leading position in market share. In the meantime, the auto finance business approval efficiency was constantly increasing. The Bank took a series of initiatives such as product innovation, credit process optimization, the adequate risk measurement model and the application of big data strategy. In consequence, the automatic approval ratio of the overall system for auto finance reached 65%, up 10 percentage points over the end of last year. Among others, the automatic approval ratios of the less-than-RMB300 thousand new auto discount loans, the second-hand car business and auto mortgage loan business reached 82%, 55% and 29% respectively. The customer could get the approval results within a few seconds. Therefore, the Bank played a leading role in the industry. At the same time, the Bank continued to strengthen channel innovation and service innovation to provide customers with more efficient and convenient business application methods through mobile banking, WeChat, website and other on-line channels, thereby effectively improving customer satisfaction. The Bank continued to enrich the spectrum of auto financial products, covering all the major consumption scenarios throughout the entire life cycle such as car purchase, car use, maintenance, replacement and so on. The Bank cooperated with many subsidiaries within the Group in comprehensive financial innovation based on customer needs and provided customers with the whole-process “Safe Driving” solution.

In 2017, in compliance with the market needs, the Bank gradually transformed the wealth management products from expected revenue-generating products to net value products, and from single-phase products to open products. Meanwhile, new rolling and ladder-type products were launched in line with the system planning for five major products. The Bank improved customer experience and channel-based marketing capability and achieved fast growth in AUM by using differentiated pricing strategy regarding different customers, such as differentiated pricing in terms of new customers, levels of customer assets and the subscription limit, and exclusive pricing for special customers (life insurance business, quasi wealth and Heritage Club). The Bank established a team of product experts with excellent professional capabilities and adopted remote investment consulting platform and combined on-line with off-line ways to promote the sales of professional product lines at outlets.

### **(3) Technology and services: build “SAT” service system and adopt IA solutions to improve customer services and experience**

#### **On-line: the “Finance + Life” platform on Pocket Bank APP 4.0**

The Bank was devoted to building Ping An Pocket Bank APP into a one-stop comprehensive financial mobile service platform. The Bank integrated the former Pocket Bank APP, Credit Card APP, and Ping An Orange APP. After the integration, the new Pocket Bank APP carried the whole products and services of the Bank’s retail business and achieved one-stop management of credit cards and debit cards. The number of cumulative users amounted to 41,720 thousand, and the number of monthly active customers of this APP reached 14,820 thousand, which ranked top in joint-stock commercial banks. The new Pocket Bank APP integrated advanced biometric technologies and can provide customers with personalized product investment portfolio plan through intelligent

experience function in accordance with the transaction records and risk preference of customers, and analyze technology and customer demands by using big data. In consequence, through APP push and presentation, customers can access to various services through only one key, and connect to different scenarios seamlessly.

#### **Off-line: a stronger presence of intelligent banking outlets**

In August 2017, Guangzhou Liuhua Branch, the first pure retail store of the Bank, was officially opened. Liuhua Branch, as a pure retail outlet, was a new intelligent retail store newly designed and established by the Bank with the feature of “new image, new model and new future”. The Bank created a new image of “modern, diversified, light and humanized” based on the design concept of leading international banks and cross-border retail industry. It provided hall service and one-stop retail banking service. Meanwhile, the Bank dug the potential demands of walk-in customers through big data plus AI and helped improve the efficiency of the sales and service personnel of stores to provide more intelligent, smooth and thoughtful high-quality services for customers.

#### **Internet-minded innovations enhance on-line and off-line user experience**

The Bank jumped out of the traditional banking thinking framework, conducted benchmarking against Internet financial institutions and established an exclusive retail IT team with a total service manpower of over 2,100. Additionally, the Bank created a new Pocket Bank APP and Clerk APP through agile development and iterative optimization. The APP can collect the touch points of customers to develop story lines, classify different customer needs and behaviours via AI and expert interpretation, and predict next best move according to the track, recommend appropriate products and services to enhance customer experience. In addition, the Bank continuously improved its APP with H5 as a marketing tool, promoted the reconstruction project of “bank with no queue” in off-line outlets, encouraged customer managers to establish sticky relationships with their customers in real life and tracked the behaviours of customer managers by technology to improve its capacity.

#### **(4) Comprehensive finance: deepening cooperation and leveraging intelligent master accounts to promote B2B2C retail business**

In 2017, The Bank continued to dig deeply into the Group’s high-quality personal customer resources. It not only conducted migration and transformation through the products, services and customer referring, but also created a specific B2B2C model to integrate the Bank’s account capacity with scenario and traffic of the Group’s on-line platforms (such as Ping An Doctor, Autohome) through plug-in, interface and other technical means. These two measures complemented each other so that the customers of the Bank can enjoy its advantageous products and services in a more natural and convenient manner. The number of new migration customers on the cross-selling channels was 4,126.6 thousand, accounting for 41.38% of the overall new retail customers, of which, the number of customers with wealth assets and above (private financial customers) increased by 43 thousand, accounting for 38.19% of the overall new private financial customers, and the balance of customers’ assets increased by RMB99,261 million, accounting for 34.34% of the overall assets balance of the new customers. New Generation Loans granted by cross-selling channels amounted to RMB41,416 million, with the proportion of overall issuance of New Generation Loans through cross-selling channels accounting for 35.41%; auto finance loans amounted to RMB10,561 million, with the proportion of overall issuance of auto finance loans accounting for 8.92%. Credit cards granted by cross-selling channels accounted for 45.99% of the total number of newly granted cards. The total net non-interest income from group insurance sold by all retail channels on a commission basis was RMB1,858 million, a year-on-year increase of 59.89%.

#### **(5) Promoting organizational, institutional and cultural changes to drive development**

In 2017, the Bank comprehensively promoted the agility transformation in terms of organizations, established agility mechanism and vertical management and control coordination system featured with “head office-branch-sub-branch-front line”, further improved the working efficiency of organizations, facilitated the new development model of private banking, strategic planning of consumer finance, and the design and

implementation of internal projects such as payment and settlement platform, and developed mechanism and capability for sustainable development of retail business.

In 2017, the Bank recruited 244 Internet technology, product and marketing professionals, including 26 senior management personnel in the credit card, consumer finance, auto finance, big data platform and other fields. Meanwhile, the Bank re-planned training system to assist the transformation by regarding training as the accelerator of business development and incubator of personnel training. It implemented the Wolf Training, Excellence Project, Pilot Project and other key projects for different groups, at different levels and by batches. It used traditional face-to-face, on-line platform, live broadcasting means and applied skills teaching, action learning, case sharing and other forms, to comprehensively enhance the managerial ability and professional skills of management cadres and business teams.

In 2017, the Bank introduced the “innovative garage” mechanism for incubating large retail innovative products, services and models to integrate optimal resources for speedy development, experimentation and iteration. A project incubation team was established under the “innovative garage” mechanism, endowing with the wisdom of the whole bank, to improve staff enthusiasm and collaboration efficiency; comments was constantly invited from front-line staff and customers in innovation process to make sure that the products incubated were close to market demands; Internet agile development model was adopted to shorten the iteration cycle of products. In 2017, core projects such as new retail stores and outlets with no queue were incubated by the “innovative garage”.

## **2. Reinventing corporate banking**

The Bank persisted in the strategic positioning of “building exquisite corporate banking”, which was featured with serious selection of industries, elaborate target at customers, appropriate product mix, and accurate control of risks. “1234” strategy transformation was continuously advanced, with close attention to a lifeline (asset quality), two development ideas (industrialization, light capital and light assets), three major protection base (system, assessment and team), four implementation methods (pure deposit, real investment bank, host bank and KYB).

### **(1) Careful selection of industries**

Focusing on the industries with large volume, weak cycle and sound growth, the Bank deeply operated financial businesses in health care, real estate, electronic information, transportation, warehousing and logistics, environmental protection, clear energy, infrastructure, culture and education and people’s livelihood industries. The Bank actively used “C+SIE+R” and “Commercial bank + Investment bank + Investment” industrial financial models to support the development of real economy. The Bank continued to optimize organizational structure by the reform of industry BUs, improved organizational vitality, and gave full play to vertical, centralized and professional industry-specific advantages. It was committed to becoming a hidden industry leader of key industries. Within the strategic layout of “Excellent corporate banking”, the Bank leveraged comprehensive finance to fully upgrade the existing industry BUs to vertically operated “industry banks”. At the end of 2017, the deposit balance of industry BUs amounted to RMB165,494 million, and the balance of assets under management reached RMB490,487 million; the operating income for the year amounted to RMB9,530 million, and the proportion of net non-interest income reached 40.30%.

Besides the aforesaid top 10 industries, government customers were also key development areas of the Bank. In 2017, in line with the reform of the government in public administration and public services, the Bank proactively prepared a government finance business unit to provide services related to government finance. It was devoted to achieving improvements for government customers in three respects: 1) improving management by upgrading government affairs through scientific and technological changes; 2) improving services by serving the public with a smart platform; 3) improving performance by boosting regional development through comprehensive finance. At the end of 2017, the deposit balance of government customers of the Bank amounted to RMB261,709 million, up 8.44% over the beginning of the year; the accumulative number of qualifications obtained for government



businesses including finance, housing and social security was 143, taking a crucial step in the development of government business.

### **(2) Carefully cultivating the customer base**

The Bank proactively adhered to the whole-lifecycle customer management philosophy, concentrated its advantageous resources on the development and maintenance of a batch of stable and high-quality corporate banking customers, strived to be the “host bank” through comprehensive financial services, and endeavored to be a “insider” of customers. For large customers, the list system and the model of “commercial bank + investment bank” as well as the “financing+wisdom” strategy were adopted to serve customers in depth to become the host bank of customers. For small and medium-sized customers, the Bank provided fast and bulk financial services in light mode, and convenient payment and settlement and value-added services. In 2017, to guarantee the resource input for core customers, the Bank took the initiative to adjust the business structure and asset structure, ensuring the enhancement in capital utilization efficiency. During the year, 1,460 inefficient customers were withdrawn and RMB26,287 million of loans was transferred to other use; 6,972 heavy asset customers were withdrawn and RMB132,507 million of loans was transferred to other use.

Actively leveraging the Group’s comprehensive finance platform and new sales model of group comprehensive finance, the Bank addressed the four major matters including marketing skill, revenue, collaboration and information, provided rich financial products and services for customers in a more efficient way and enhanced customer stickiness as well. In 2017, among the corporate customers of the Bank, 47.3 thousand customers held products of other subsidiaries within Ping An Group at the same time, each holding an average of 1.35 group products, a slight increase over last year; 226 recommended projects within the Group’s investment portfolio were launched by the Bank, with a total new capital of RMB233,623 million; products under custody of subsidiaries within the Group amounted to RMB2.03 trillion, accounting for 33.00% of the total size of banks in this regard.

### **(3) Carefully tailored product offerings**

In 2017, based on the customer demands, the Bank proactively established a differentiated product system and arranged appropriate products for customers to precisely match products with customers, so as to maximize the value of its customers.

It integrated and optimized the platform system for a stronger and lighter trading bank compared with the traditional one. The Bank continued to expand the clout of four platforms of Orange E Net, Cross-border E-commerce, Baoliyun and Hang-E-Tong through scientific and technological power and further provided customers with lean products and services. In 2017, Orange E Net has delivered industry financial service system to 957 e-commerce platform projects, an increase of 141 over the beginning of the year. The industry standard for digitalized supply chain financial system was taking shape. The assets receivables trading market on “Baoliyun” recorded 6,826 customers, an increase of 2,460 over the end of previous year. Transaction volume on Cross-border E-commerce Financial Platform reached RMB440,004 million, a year-on-year increase of 6.02%. The total number of cooperative customers of the Hang-E-Tong comprehensive financial asset trading platform reached 1,929, an increase of 566 over the end of last year. Baoliyun Platform was awarded Commercial Factoring Innovation Award and Contribution Award by Ministry of Commerce and Banking Technology Development Award by PBoC.

In terms of light capital and light assets, the Bank vigorously developed low-risk-weight and low/zero capital occupation business, made full use of the Group’s comprehensive financial resources and platform to expand channel cooperation and open up light capital and light assets income source. In 2017, the Bank deepened its cooperation with Ping An Securities and launched 76 projects with a total size of RMB32.9 billion, forming a group of real investment bank cases; in 2017, it has completed the bonds underwriting size of RMB105,105 million, with a rapid increase of market share to 2.65% from 1.90% at the beginning of the year; in 2017, the

custody fee income reached RMB3,046 million, with the net size of custody of RMB6.13 trillion, an increase of 12.25% over the end of previous year; in 2017, the number of customers with gold accounts was 5,104.2 thousand, an increase of 1,504.2 thousand or 41.78% over the beginning of the year; precious metals agency trading volume and self-trading volume in Shanghai Gold Exchange stood at the forefront of the industry. Ping An Trading Pass, as the first comprehensive trading platform for financial products in China, won the “Top 10 Financial Product Innovation Award” in the review and selection of “2017 Financial Innovation Award of China” sponsored by the magazine “the Banker”.

For small and medium-sized enterprise customers, the Bank proactively sought innovative breakthroughs in products and services. On the one hand, it actively developed professional platform for serving small and medium-sized enterprises to build a mobile integrated service system to provide payment and settlement, and wealth management and value-added services for small and medium-sized enterprise customers; on the other hand, it proactively established SME credit system, preliminarily developed KYB (SME credit data loans) model and applied big data, AI and risk control model to provide on-line, bulk and intelligent financing services; Prior to October 2017, the personal version and corporate version of KYB had been launched one after another and currently are in pilot implementation by branches.

#### (4) Precise and effective risk controls

The Bank will build a comprehensive risk management system, implement the pre-loan, loan and post-loan regulations, and practice “targeted policy”.

Since its inception by the end of 2016, special asset management division of the Bank functions well. In 2017, the division strengthened its professional capability, promoted operation and adhered to the principle of “light assets and light capital”. As a results, it was successfully transformed from decentralization to centralization, and from collection to operation. Its collection capability was greatly improved, with significant collection results achieved. In 2017, non-performing assets recovered by the division amounted to RMB6,445 million, a year-on-year increase of 111.17%.

### (III) Whether there is significant change in the main businesses during the reporting period?

Yes  No

### (IV) Product accounting for over 10% of income or profit from main businesses

Applicable  Not applicable

(In RMB million)

Item	2017		2016		Year-on-year change
	Amount	%	Amount	%	
<b>Net interest income</b>	<b>74,009</b>	<b>69.96%</b>	<b>76,411</b>	<b>70.94%</b>	<b>(3.14%)</b>
Interest income from balances with central banks	4,232	2.86%	4,240	3.23%	(0.19%)
Interest income from transactions with financial institutions	10,726	7.24%	8,787	6.70%	22.07%
Including: Interest income from deposits with banks and other financial institutions	7,476	5.05%	4,998	3.81%	49.58%
Interest income from placements with banks and other financial institutions	1,585	1.07%	1,413	1.08%	12.17%
Interest income from loans and advances to customers	94,976	64.14%	84,904	64.75%	11.86%
Interest income from investments	34,078	23.02%	29,665	22.62%	14.88%
Other interest income	4,056	2.74%	3,523	2.70%	15.13%
<b>Subtotal of interest income</b>	<b>148,068</b>	<b>100.00%</b>	<b>131,119</b>	<b>100.00%</b>	<b>12.93%</b>
Interest expense on borrowings from central bank	2,671	3.61%	948	1.73%	181.75%
Interest expense from transactions with financial institutions	19,155	25.86%	8,531	15.59%	124.53%
Interest expense on deposits due to customers	37,875	51.14%	35,895	65.62%	5.52%
Interest expense on bonds payable	14,358	19.39%	9,334	17.06%	53.82%

<b>Subtotal of interest expense</b>	<b>74,059</b>	<b>100.00%</b>	<b>54,708</b>	<b>100.00%</b>	<b>35.37%</b>
<b>Net fee and commission income</b>	<b>30,674</b>	<b>29.00%</b>	<b>27,859</b>	<b>25.86%</b>	<b>10.10%</b>
<b>Other net non-interest income</b>	<b>1,103</b>	<b>1.04%</b>	<b>3,445</b>	<b>3.20%</b>	<b>(67.98%)</b>
<b>Total operating income</b>	<b>105,786</b>	<b>100.00%</b>	<b>107,715</b>	<b>100.00%</b>	<b>(1.79%)</b>

**(V) Whether there is any significant seasonal or cyclical operating concerns?**

Yes  No

**(VI) Explanatory notes on significant changes in operating income, operating cost, net total profit attributable to ordinary shareholders of the Company during the reporting period as compared to the last reporting period**

Applicable  Not applicable

**Analysis of comparative items with a change of over 30%**

Item	Amount for the period	Amount of change	Rate of change	Analysis on reasons of change
Interest expense	74,059	19,351	35.37%	Increase in interest expense from transactions with financial institutions
Fee and commission expense	5,051	1,601	46.41%	Increase in commission expense arising from increase in the number of credit cards issued and in the transaction volume
Investment income	632	(1,736)	(73.31%)	Decrease in gains on transfer price spread of bills
Gains/losses on fair value changes	(61)	(110)	(224.49%)	Decrease in gains/losses from fair value changes of derivative financial instruments
Net gains from foreign exchange and foreign exchange products	166	(716)	(81.18%)	Decrease in gains/losses on exchange due to fluctuations in exchange rate
Gains/losses on disposal of assets	10	10	Nil in the previous year	Newly added item according to the formatting of financial statements newly revised by the Ministry of Finance for this year
Other income	170	170	Nil in the previous year	Newly added item according to the standard for government grants for this year
Taxes and surcharges	1,022	(2,423)	(70.33%)	Influence of the policy of the business tax to value-added tax reform coming into effect on 1 May 2016
Non-operating income	38	(183)	(82.81%)	Influence of reclassification arising from changes in the accounting policy for the standard of government grants
Non-operating expenses	104	39	60.00%	Small base number of RMB65 million for last year

**(VII) Suspension in trading or delisting**

Applicable  Not applicable

**VII. Matters relating to Financial Statements**

**1. Reason for changes in accounting policies, accounting estimates and accounting methods as compared to the financial report for last year**

Applicable  Not applicable

In 2017, the Ministry of Finance released the “Accounting Standard for Business Enterprises No. 42—Non-current Assets or Disposal Groups Held for Sale and Discontinued Operations”, revised “Accounting Standard for Business Enterprises No. 16—Government Grants” and the “Circular on Amendment to Formats of Financial Statements of General Industry” and its interpretation (Cai Kuai [2017] 30). The financial statements are prepared in accordance with the above standards and circular. See “II. Summary of Significant Accounting Policies and Accounting Estimates 40. Changes in Significant Accounting Policies” in “Section XI Financial Report” of 2017 Annual Report of Ping An Bank Co., Ltd. for details.

**2. Reason for retrospective restatement to correct major accounting errors during the reporting period**

Applicable      Not applicable

There is no retrospective restatement to correct major accounting errors during the reporting period.

**3. Reason for changes in scope of the consolidated financial statements as compared to the financial report for last year**

Applicable      Not applicable

There is no change in scope of the consolidated financial statements during the reporting period.

The Board of Ping An Bank Co., Ltd.

15 March 2018