

An aerial photograph of a city skyline, featuring a prominent tall skyscraper on the left side. The city is densely packed with various buildings, and the surrounding area includes greenery and water bodies. The sky is clear and blue.

Ping An Bank 2017 Annual Report

March 2018



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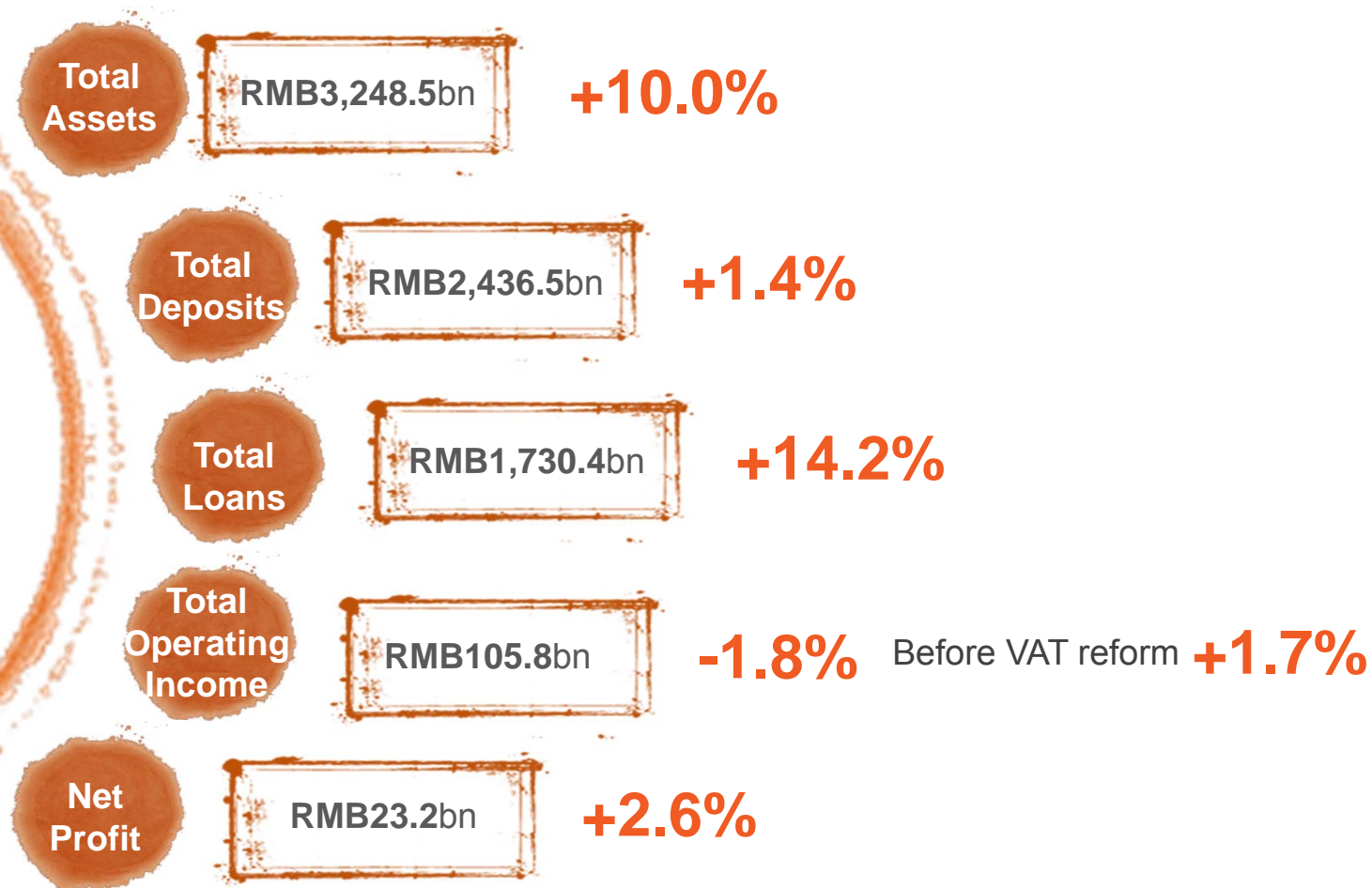
Key Work
Projects



Overall Performance

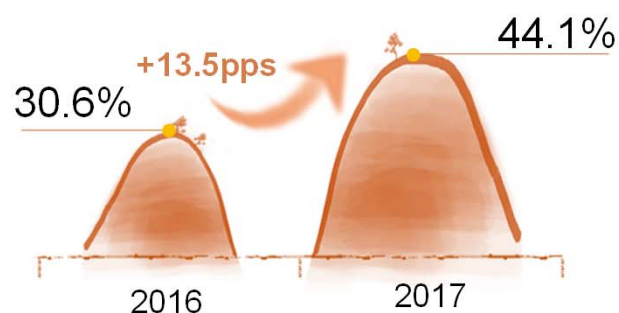
- Progress in line with strategy, retail business transformation paying off

Robust operation

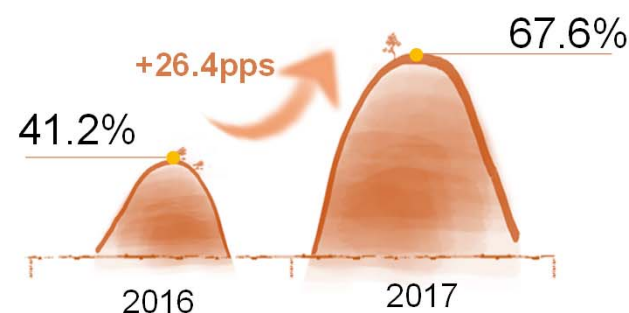


Retail business transformation made greater contribution

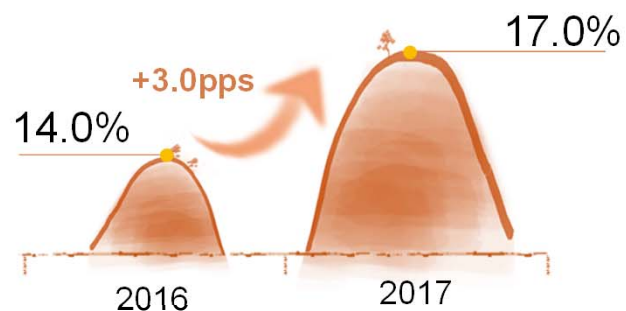
Retail Income %



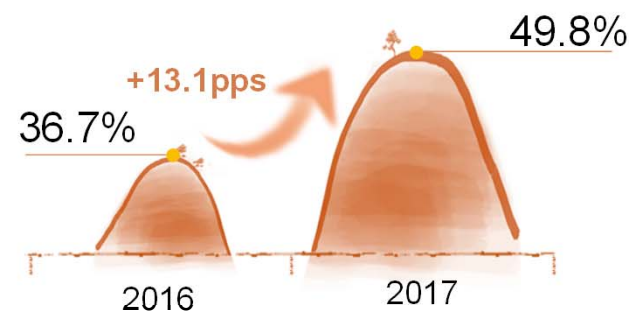
Net Retail Profit %



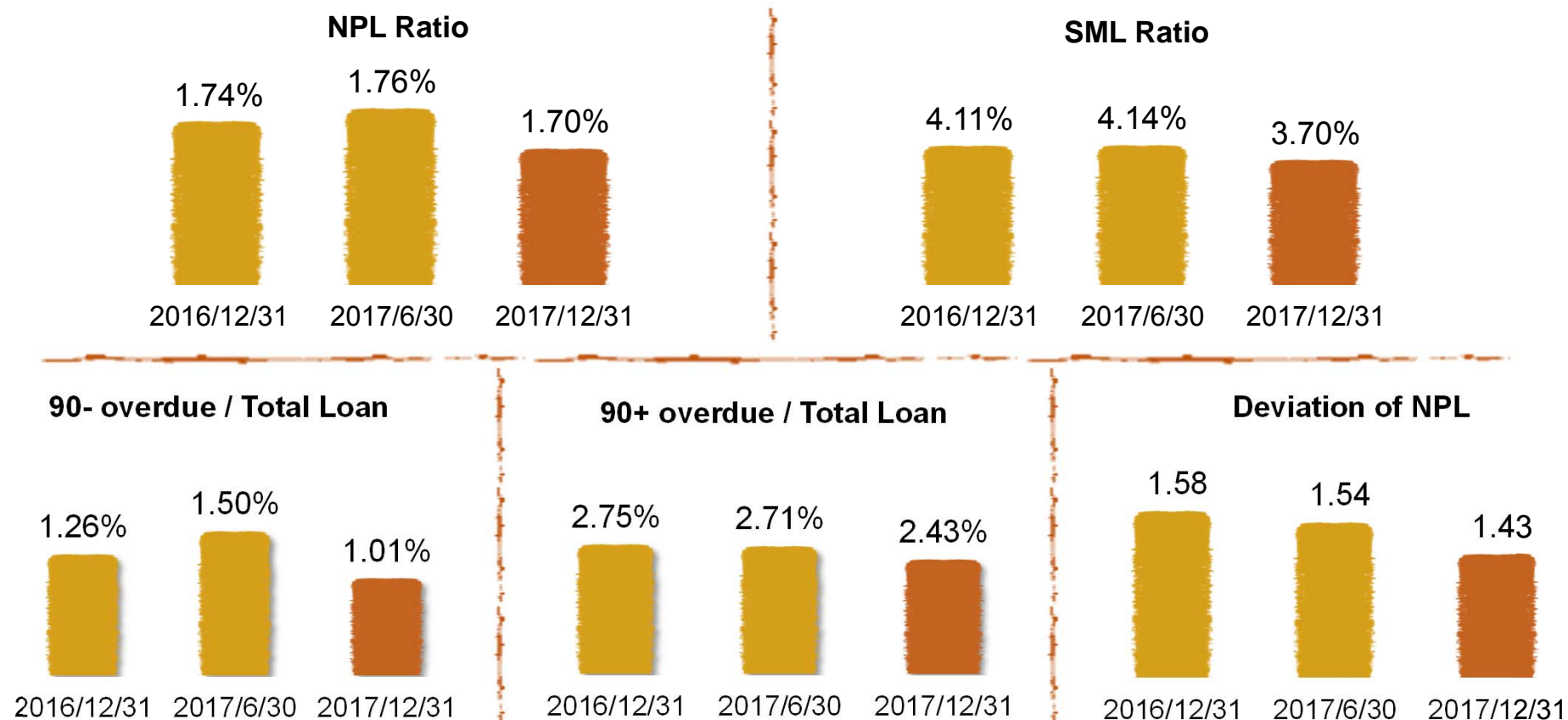
Retail Deposits %



Retail Loans %



Asset quality stable and improving



Key indicators: profit and scale

| (In RMB100 mn) | 2017 | 2016 | YoY | |
|--|---------------|---------------|--------------|--------------|
| | | | Change | Change % |
| 1. Net Profit | 231.89 | 225.99 | 5.90 | 2.61 |
| 2. Total Assets | 32,485 | 29,534 | 2,951 | 9.99 |
| Total Loans | 17,304 | 15,147 | 2,157 | 14.24 |
| Including: Loans and Advances to Customers | 17,042 | 14,758 | 2,284 | 15.48 |
| (1) Corporate Loans | 8,552 | 9,348 | -796 | -8.52 |
| (2) Retail Loans | 8,490 | 5,410 | 3,080 | 56.95 |
| 3. Total Liabilities | 30,264 | 27,512 | 2,752 | 10.00 |
| Total Deposits | 24,365 | 24,026 | 339 | 1.41 |
| Including: Deposits due to Customers | 20,004 | 19,218 | 786 | 4.09 |
| (1) Corporate Deposits | 16,594 | 16,528 | 66 | 0.40 |
| (2) Retail Deposits | 3,410 | 2,690 | 720 | 26.76 |
| 4. Shareholders' Equity | 2,221 | 2,022 | 199 | 9.83 |

Key indicators: quality and efficiency

| (In RMB100 mn) | 2017 | 2016 | YoY |
|---|---------------|---------------|-----------------|
| 1. Asset Quality | | | |
| NPL Balance | 290 | 257 | 12.82% |
| NPL Ratio | 1.70% | 1.74% | -0.04pp |
| Provision-to-Loan Ratio | 2.57% | 2.71% | -0.14pp |
| Provision Coverage Ratio of NPL | 151% | 155% | -4pps |
| Provision Coverage Ratio of 90+ overdue | 106% | 99% | +7pps |
| 2. Return on Assets | | | |
| Average Return on Total Assets | 0.75% | 0.83% | -0.08pp |
| Weighted Average Return on Net Assets | 11.62% | 13.18% | -1.56pps |
| 3. Net Interest Spread (NIS) | 2.20% | 2.60% | -0.40pp |
| 4. Net Interest Margin (NIM) | 2.37% | 2.75% | -0.38pp |
| 5. Cost/Income Ratio | 29.89% | 25.97% | +3.92pps |

Key indicators: financial income and expenses

| (In RMB100 mn) | 2017 | | 2016 | | YoY change | |
|---|--------------|-------------|--------------|-------------|---------------|----------------------|
| | Amount | % of Total | Amount | % of Total | Change % | Change in % of Total |
| 1. Operating Income | 1,058 | 100% | 1,077 | 100% | -1.79% | |
| Net Interest Income | 740 | 70% | 764 | 71% | -3.14% | -0.98pp |
| Net Non-interest Income | 318 | 30% | 313 | 29% | 1.51% | +0.98pp |
| 2. Operating Expenses | 326 | | 314 | | 3.88% | |
| General and Administrative Expenses | 316 | 30% | 280 | 26% | 13.02% | +3.92pps |
| 3. Operating Profit Before Provisions | 731 | | 763 | | -4.13% | |
| 4. Less: Impairment Losses on Assets | 429 | | 465 | | -7.72% | |
| 5. Net Profit | 232 | | 226 | | 2.61% | |
| 6. Basic/Diluted Earnings per Share (EPS) (RMB)* | 1.30 | | 1.32 | | -1.52% | |

Note: On 7 March 2016, the Bank issued private placement of non-cumulative preference shares of RMB20 billion. In March 2017, the Bank paid dividends on preference shares of RMB874 million (tax inclusive) for the year. The interest period for the dividends was from 7 March 2016 to 6 March 2017. In calculating the “EPS” for 2017, numerators were net of the aforementioned dividends on preference shares paid.

Core regulatory indicators

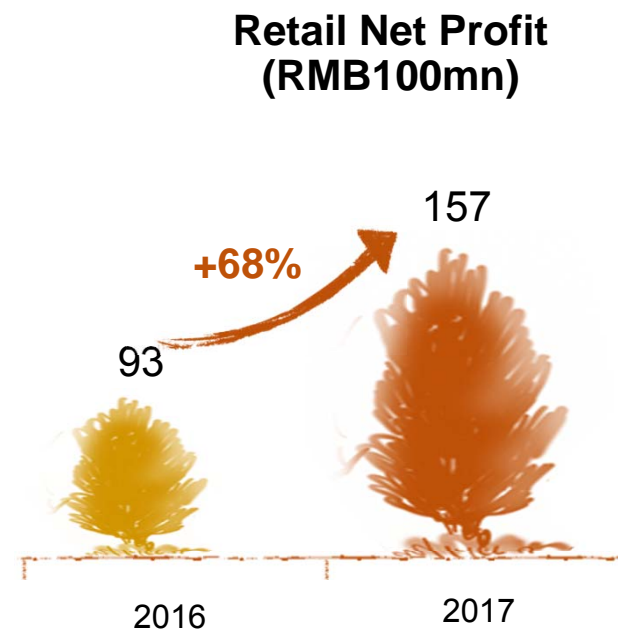
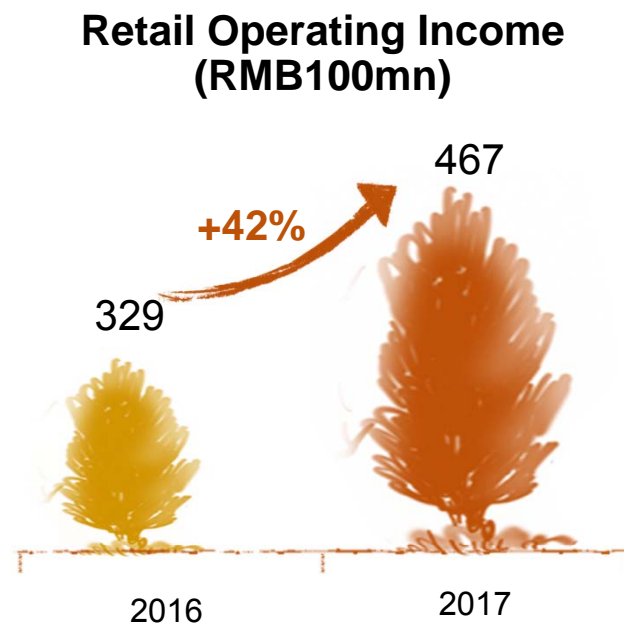
| (Unit: %) | Benchmark | 2017/12/31 | 2016/12/31 |
|------------------------------------|------------------------------|------------|------------|
| 1. Capital Adequacy | | | |
| Capital Adequacy Ratio | ≥10.5 | 11.20 | 11.53 |
| Tier 1 Capital Adequacy Ratio | ≥8.5 | 9.18 | 9.34 |
| Core Tier 1 Capital Adequacy Ratio | ≥7.5 | 8.28 | 8.36 |
| 2. Liquidity | | | |
| Liquidity Ratio | ≥25 | 52.23 | 49.48 |
| Liquidity Coverage Ratio | ≥90 (at the end of the year) | 98.35 | 95.76 |



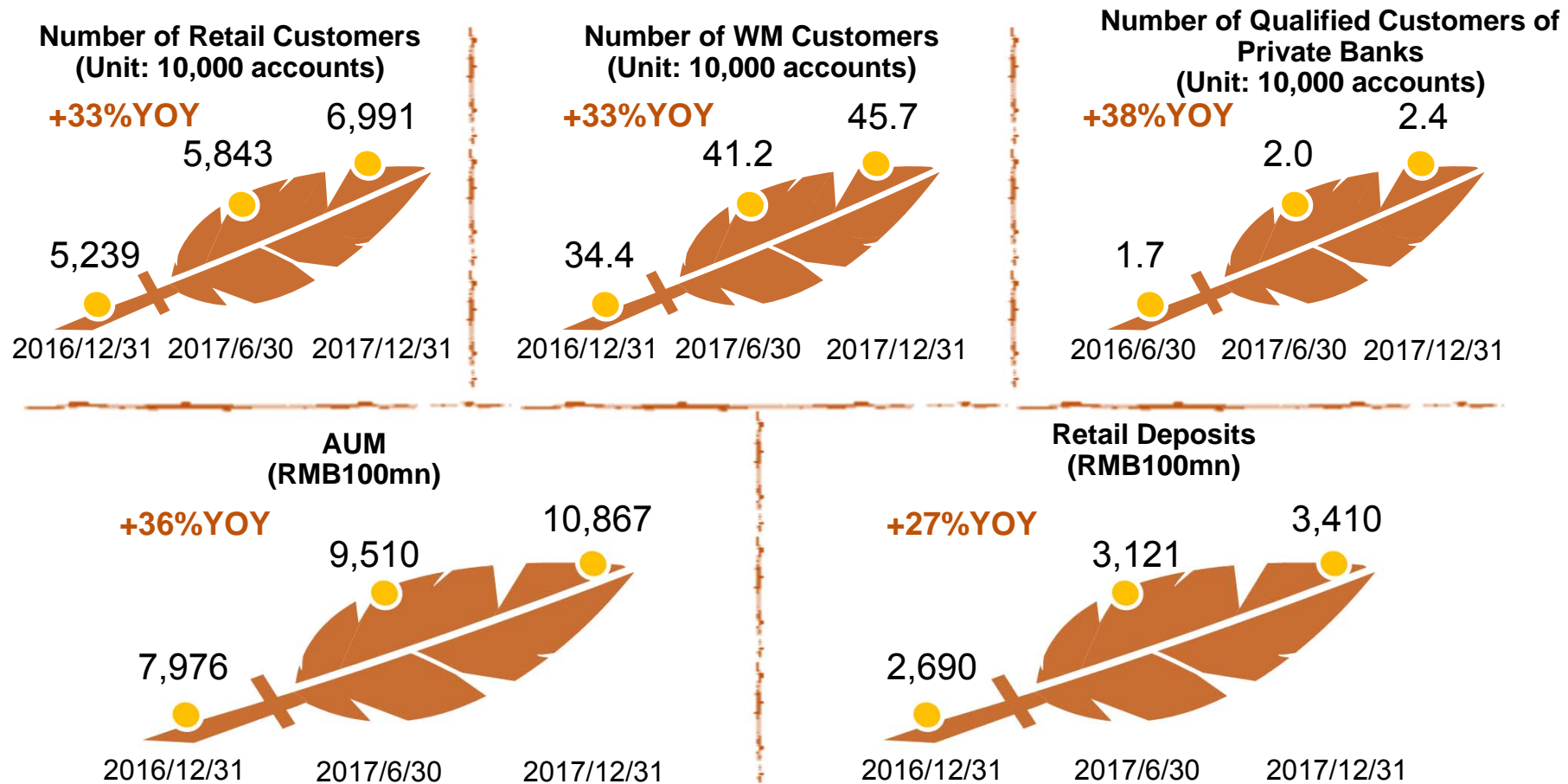
Retail Breakthroughs

- **Scale growth rate led industry, solid increase in operating income and profit.**

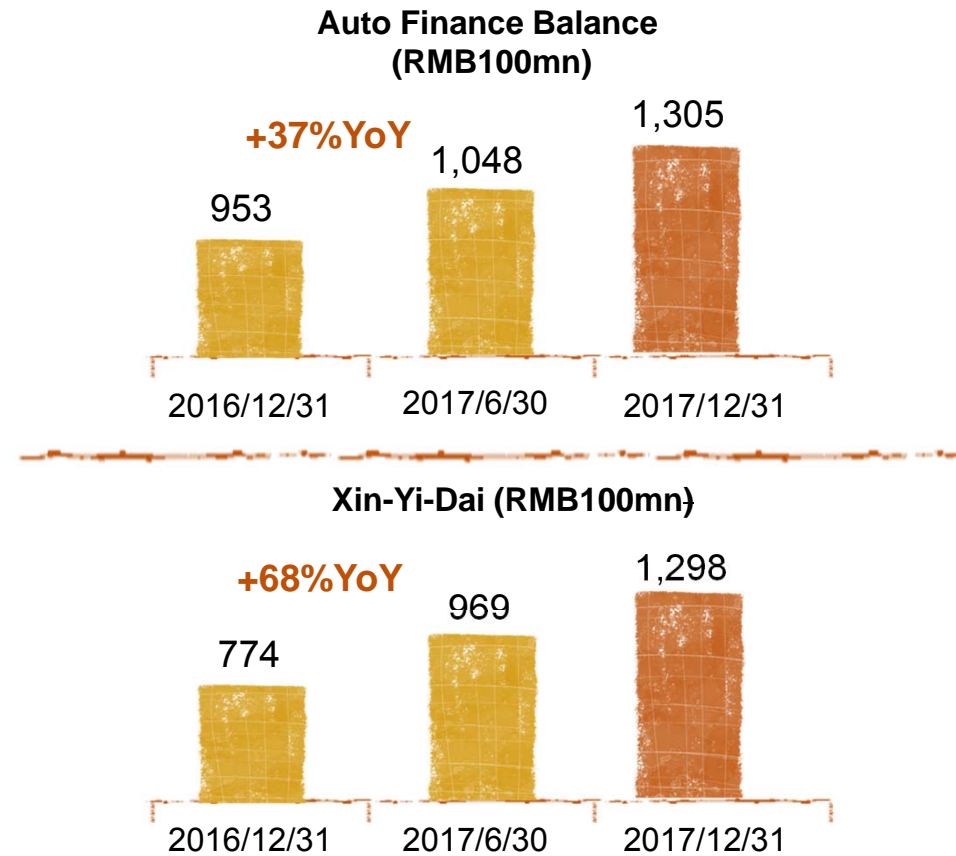
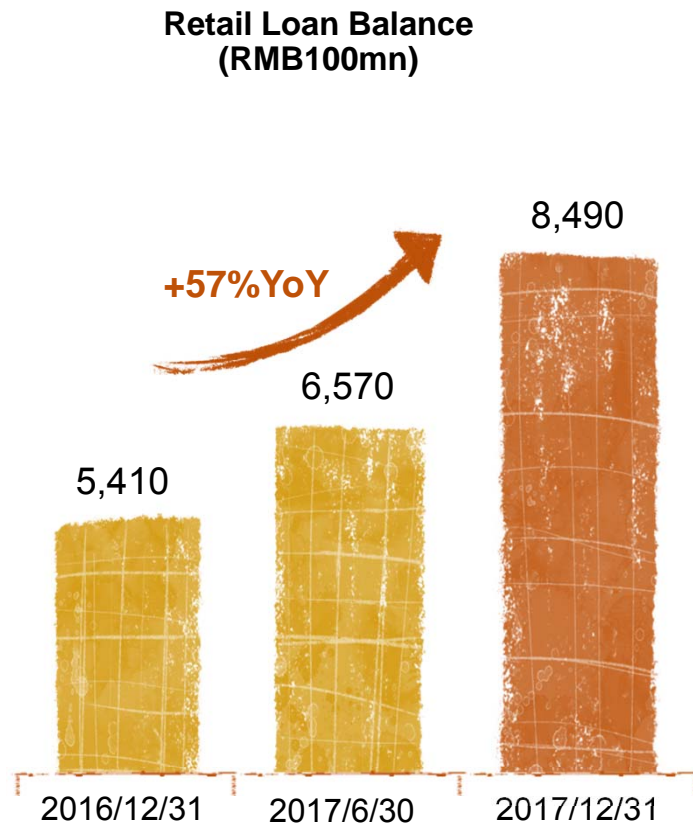
Solid growth in operating income and profit of retail businesses



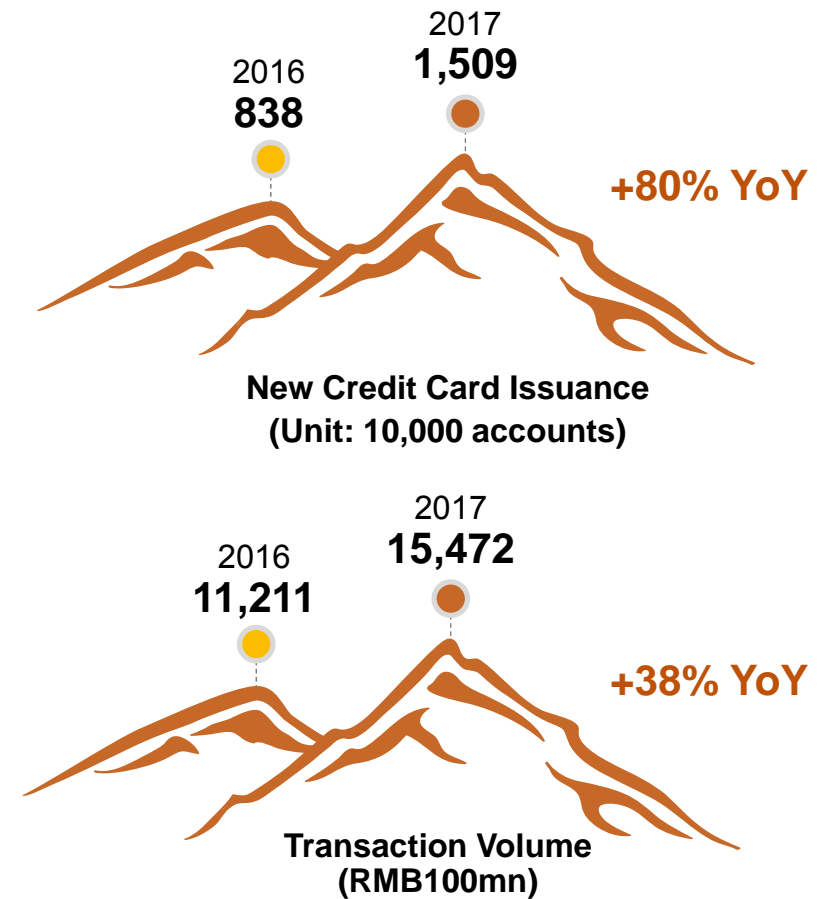
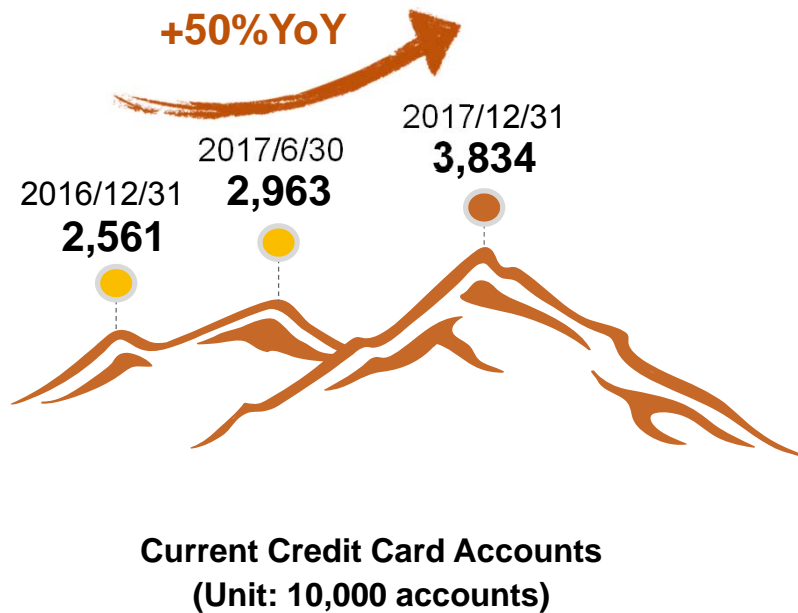
Significant increase in the number of customers, AUM exceeding RMB1 trillion



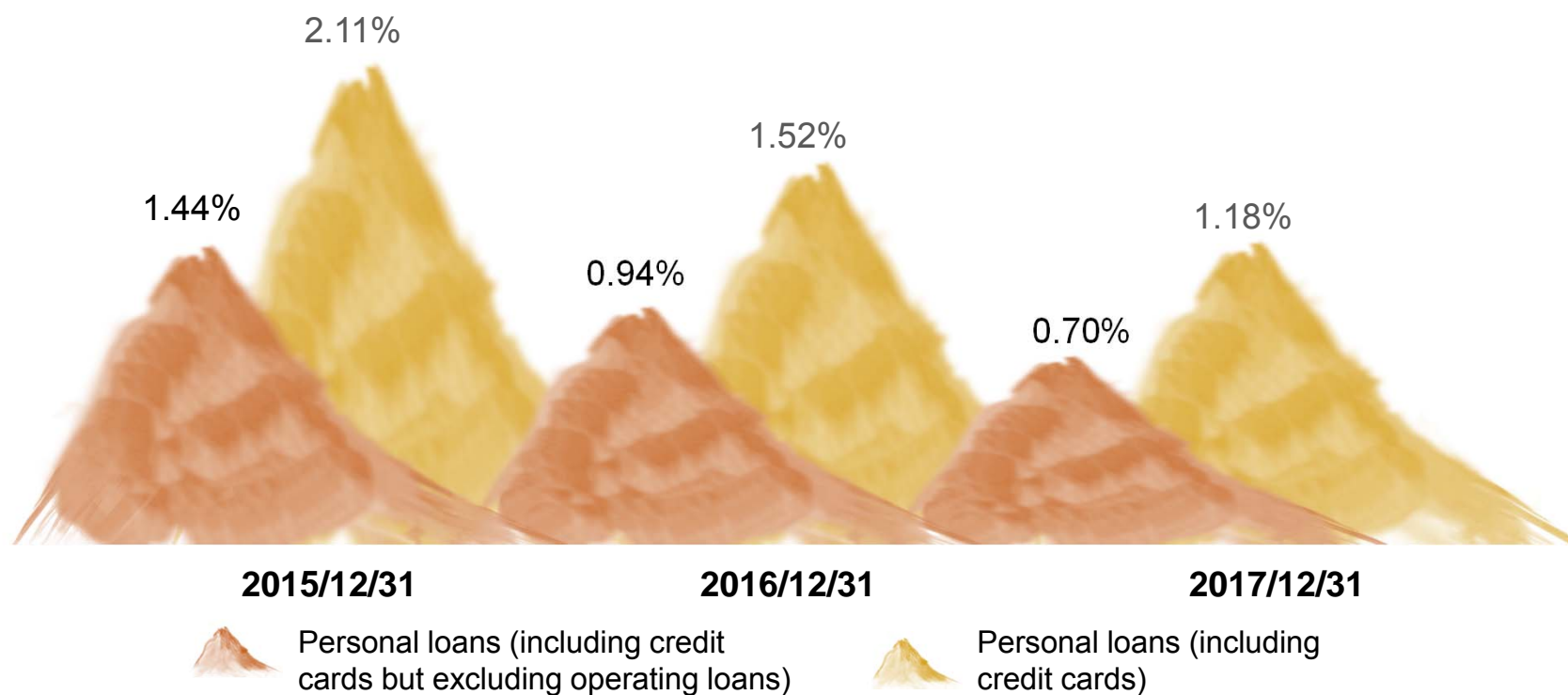
Retail loans grew rapidly and top products demonstrated outstanding performance



Credit cards: expanded in market share and grew in transaction

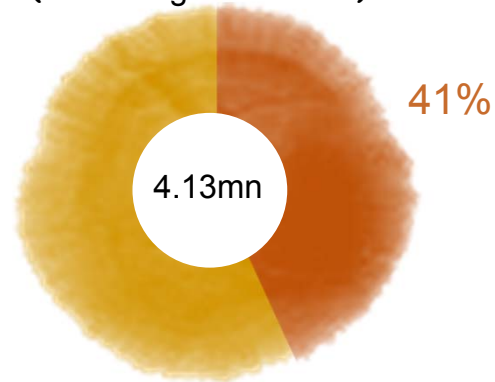


Continuous improvement in asset quality

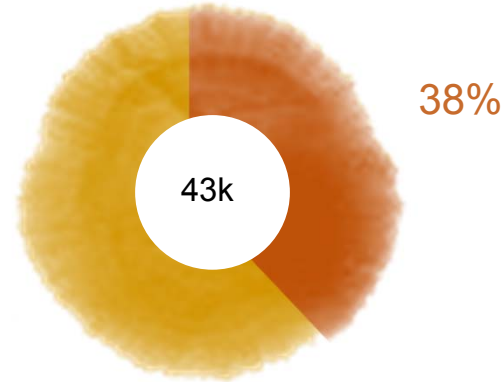


“Integrated Finance” demonstrated outstanding advantages

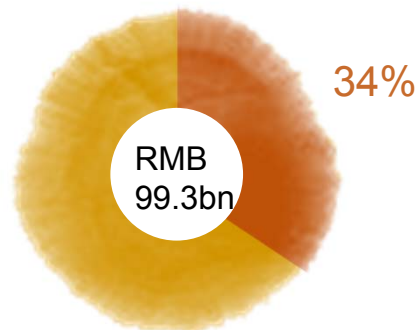
Growth in and % of retail customers
(excluding credit card)



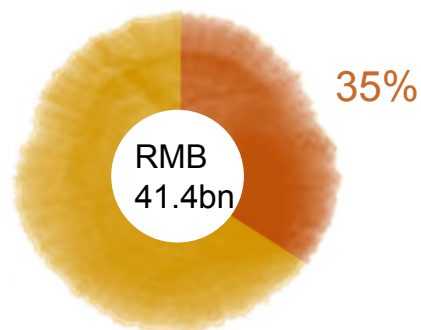
Growth in and % of retail WM customers



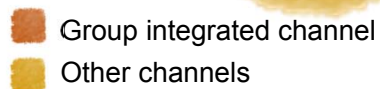
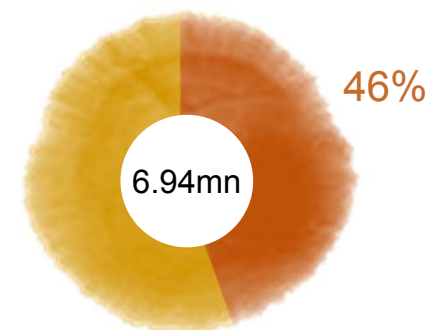
Growth in and % of AUM



Issuance and % of Xin-Yi-Dai



Issuance and % of New Credit Cards





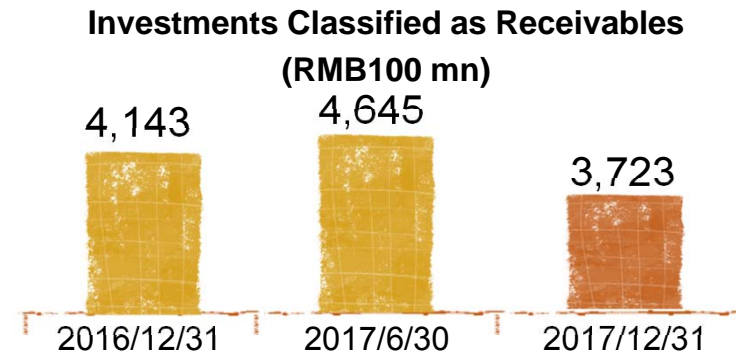
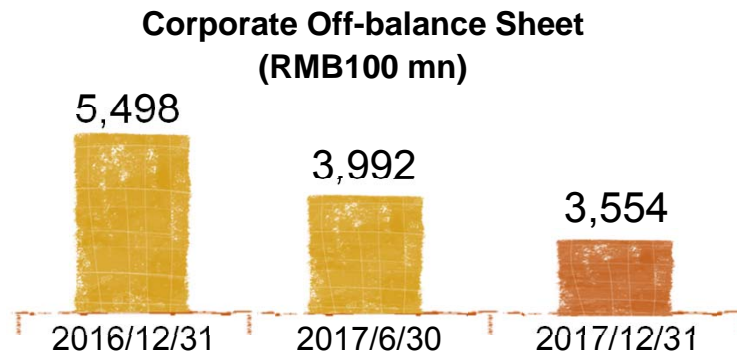
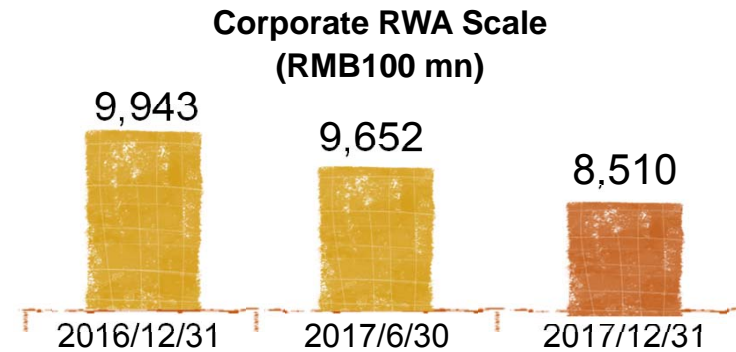
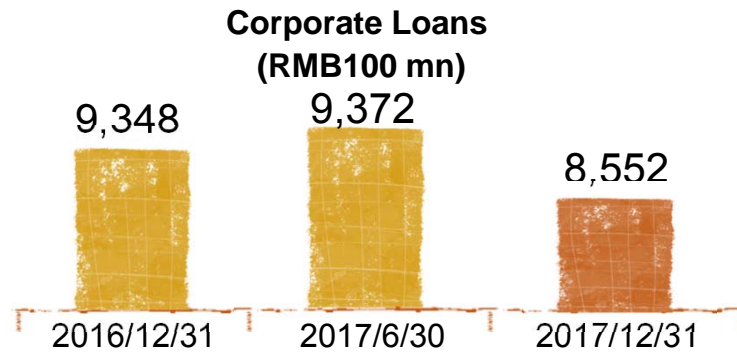
Selective Corporate Business

- **Assets scaled down effectively and in order, notable breakthroughs in certain areas.**

Implemented the “light capital and light assets” strategy, scale-down effective and in order

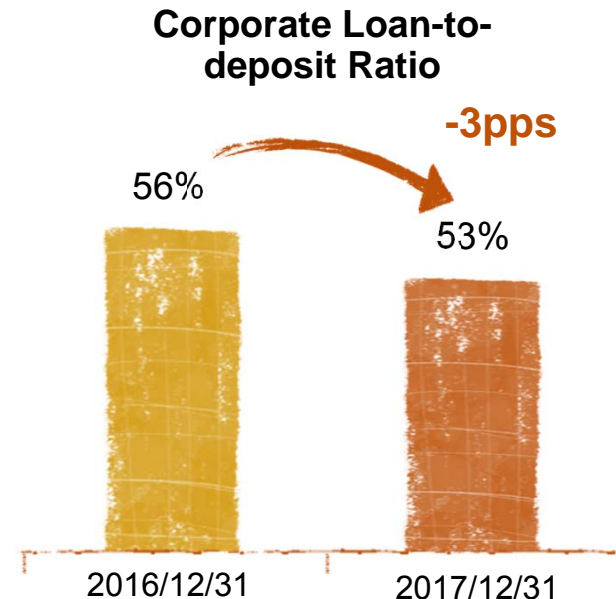
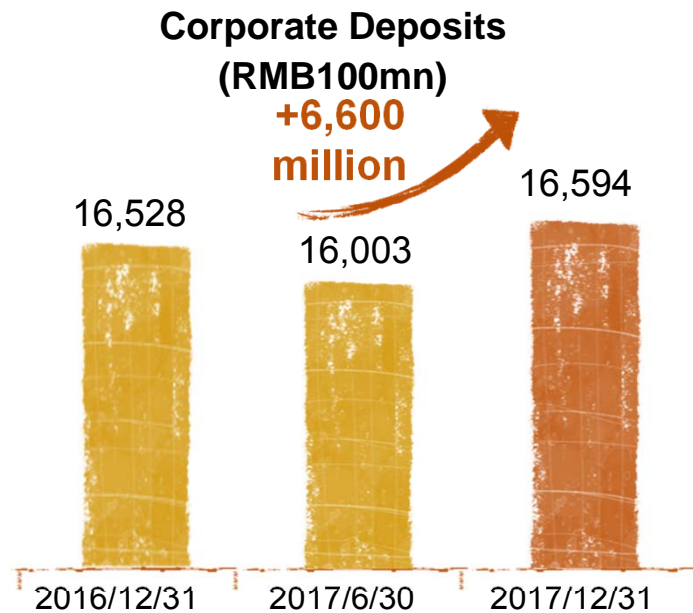
Optimized customer structure, freed up credit resources, provided strong support for retail transformation

- Elimination of 6,972 asset-heavy customers freed up RMB132,507 million of credit resources
- Elimination of 1,460 inefficient customers freed up RMB26,287 million of credit resources



Loan-to-deposit ratio improved as deposits increased

- While corporate loans decreased, and corporate deposits rebounded from decline to achieving positive growth at the year end.
- Corporate loan-to-deposit ratio was further reduced as the Bank moved away from the approach of driving deposit growth through lending.



Carefully designed hit products in building up trade bank

Cooperative customers increased to 6,826, up **2,460**

Transaction scale increased to RMB440 billion, up **6%** on a year-on-year basis

The Net provides financial service system for 957 e-commerce platform projects, up **141**

Cross-border E-commerce

Baoliyun

Orange E Net

Hang-E-Tong

Cumulative total of cooperative customers increased to 1,929, up **566**

- Their influence and popularity continued to increase, as the Bank provided more tailored products and services to customers.
- Made full use of the comprehensive platforms to expand light capital and light assets income sources. Bonds underwriting amounted to RMB105.1 billion, as market share rose from 1.90% to 2.65%. Custodian assets increased 12.25% to RMB6.13 trillion.

Strict control over asset quality

Standardized actions

- **Built an intelligent risk warning platform**, to enable automatic, on-line, comprehensive and standardized early warning, so as to detect and respond to risks timely.
- **Implemented standardized pre-lending and post-lending activities**, including the “Pre-control 315”, the “Pre-control on Interest Recovery 133”, the “Seven Supervision Regulations”, the “Eight Management Principles”, etc.

Portfolio optimizing

- **Resources prioritized to retail lending**, as the Bank strives to build “intelligent retail banking”.
- **Raised the acceptance threshold for corporate customers**, stuck to Dos and Don'ts, and focused on supporting the key industries and areas.

Strengthened management mechanism

- **One bank, two systems:** differentiation in assessment for selected branches, with KPI focusing on asset quality.
- **Two-way incentives:** improved the initiative for NPL recovery and resolution, and improved the quality of existing loans.
- **Biweekly asset quality review:** focused on important issues and key matters to enhance asset quality management and control.

Effective mitigation of lagacy risk

Professional management: set up a special asset management division for recovery.

Two major transformations: transformed from decentralized pattern to centralized pattern and from recovery to operation.

Professional team

- Developed a professional team with 380 personnel, including more than 20 experts. The total number of personnel decreased by 26%, while production capacity increased by 180% compared with last year.

Management system

- Established and implemented share competition system and strengthened PK mechanism to activate team potential.
- Implemented four major systems including assessment, supervision, meeting and statements to realize closed loop management.

Innovative strategy

- The disposal strategy of innovative quartering method (popsicle, apple, chick, root carving) for non-performing assets witnessed remarkable effects. Non-performing asset securitization and cross-border transfer of single debt had a first taste of success.

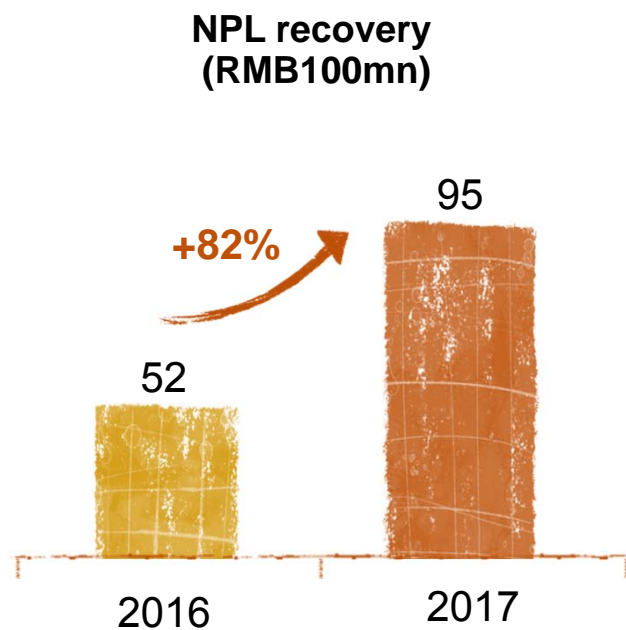
Platform operation

- Set up a “three flows” search platform, and built a matrix treasure map for hundreds classes of properties.
- Promoted the operation of asset management platform, revitalized matchmaking trading, and leveraged online transactions to achieve a win-win result.

System support

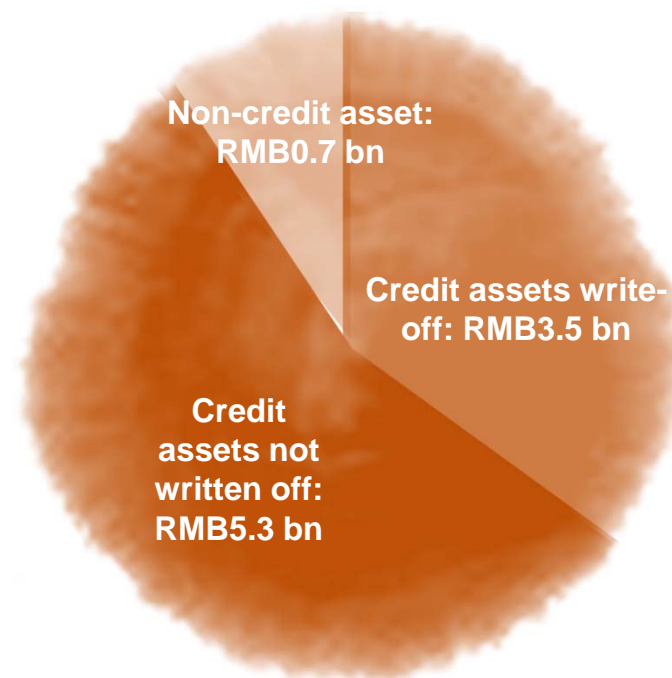
- Established a special management division to realize whole-closed management for business process of special assets. Developed convenient mobile APP to boost the research and application of big data, so as to explore an intelligent recovery solution.

Remarkable performance in NPL recovery



Including: 83% in cash recovery

Composition of NPL recovery





Technology-driven Innovation

- **Blooming innovation outcomes, expanding business applications.**

Technology team kept growing, creating a favourable internet environment

The team is continually growing

- **Internet talents:** business elites are from top companies in the Internet industry, such as BAT, eBay, Ctrip, etc. The retail business has recruited 244 people specializing in Internet-based technologies, and products and marketing, including 26 medium-level and senior manager, creating a strong pool of talents.
- **IT team:** successfully established a retail exclusive IT team with more than 2,100 employees.

The high-tech atmosphere is gradually evolving

- **Strengthen high-tech awareness:** the Internet awareness was strengthened across the bank. The frontline and supporting departments were beginning to apply Internet thinking and tools to resolve problems and improving efficiency.
- **Create favourable high-tech atmosphere:** the high-tech atmosphere was improving in IT and Internet-based finance service departments. The Bank removed restrictions, encouraged innovations, and endeavoured to create a strong culture to support technological development and applications.

Technology innovations paying off

Pocket Bank APP

- The monthly active customers of Pocket Bank amounted to 14,820 thousand, ranking the second in all joint-stock banks.

Set up a corporate business platform

- KYB automatic approval system came into use, realizing online and automatic approval for small business loans, and greatly improving the efficiency (with accumulated loans of RMB185 million).
- Balance of deposits on Orange E Payment Platform totals RMB139.6 billion, representing an increase of RMB48.5 billion or 53% from the end of last year.

Retail platform based on big data

- By means of open source technologies, independent and controllable retail big data platform has been established and put into use. B+ statement platform goes into operation, providing intelligent data analysis and customized statement preparation.

Launch new intelligent retail stores

- New intelligent retail stores, such as Liuhua Branch, have been set up to implement the service system centering on "intelligence+O2O+customer experience", a key initiative for promoting comprehensive financial promotion model.

Face recognition technology

- Face recognition has been widely used in various business scenarios to improve efficiency, such as debit card account opening, credit card activation and identity verification.

AI

- AI customer service: end-to-end transformation to build one-stop AI+ customer service platform.
- AI risk control: AI embedded in the whole lifecycle of risk management, from AI-assisted approval, to AI-assisted risk monitoring, and AI-assisted recovery. Automation accounts for 80% of the credit card approval platform, and 65% for approval of the auto finance system.
- AI investment advisory: a powerful tool for expanding our AUM customer base, as AI enables the Bank to actively refocused its attention to customers, and provides market information, portfolio advice, product plans and systems leveraging expert database.





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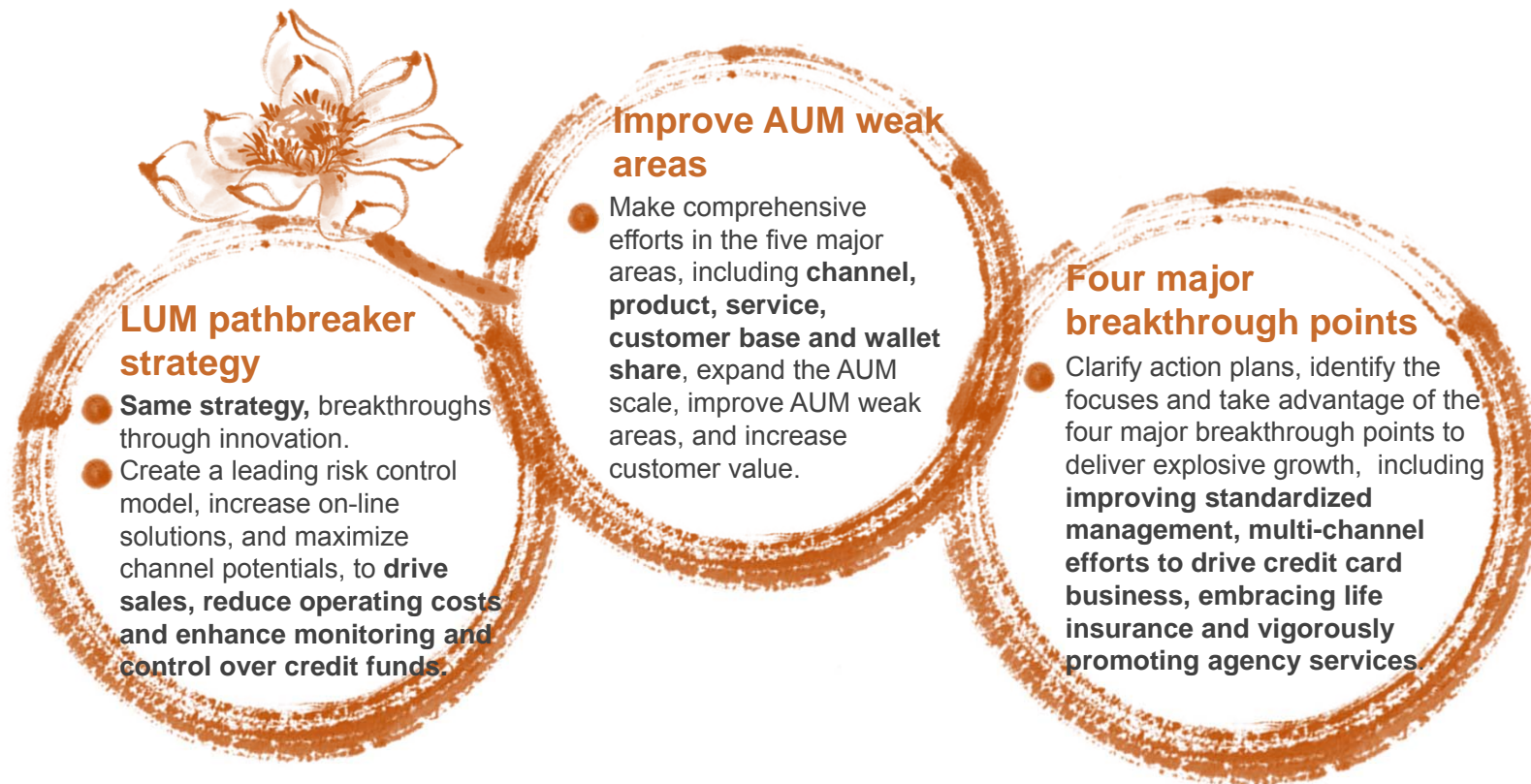


Outlook

- **Adhere to transformation, open up new landscape, achieve practical results.**

Key work projects for 2018: retail breakthroughs

- Adhere to strategic transformation direction and achieve strategic target of “becoming a leading retail bank in both China and worldwide”.



Key work projects for 2018: selective corporate business

- **Resolutely and thoroughly implement the "1-2-3-4" strategy to make progress in the transformation in an all-round way**

1 lifeline

Keep the lifeline of "asset quality"

Reduce and dissolve the existing loans resolutely, grant new loans to selective customers and do right things.

Assign specific responsibilities to and develop specific standardized actions for each individual, who has to be held responsible for failure to implementing the actions.

2 development ideas

Continue to adhere to the development ideas of "industrialization and light capital and light assets"

Restructure five major industry BUs and establish a government finance division.

Integrate bank securities, join in the Group Comprehensive Finance Development Committee and conduct operations with the thinking of real investment banking.

3 bedrocks

Restructure products, transform process, optimize talent structure and consolidate safeguard base

Set up a new post of Chief Product Officer, thoroughly organize and optimize processes and products, forge banking, securities and leasing synergy, strengthen cooperation to share professionals from branches and head office, and improve the professional capabilities of head office.

4 implementation methods

Attract idle government deposits; implement real investment banking; trading banking; introduce popular KYB; put efforts into interbank and financial markets; and specify implementation methods

Set objectives for branches, leverage the Group's advantages and technological advantages to quickly attract government customers, upgrade traditional advantages, apply the newest technologies, implement KYB model, and introduce real popular offerings

Take advantage of Group Comprehensive Finance Development Committee, and strengthen investment banking committee and trading committee.

Key work project for 2018: technology-driven innovation

- Leverage on the Group's technological advantages, increase investment and consolidate the technology base; strengthen coordinations with business unites, specify criteria, achieve actual results and establish benchmarking

Consolidate technology base

Retail: Optimize APP, promote the connection with Jin-Guan-Jia to provide tailored services for different customers as soon as possible and to increase the number of daily and monthly active customers of the APP, **activate zero-asset customers**, manage customers based on operation data and accurately map customers to achieve targeted marketing.

Corporate business: implement KYB and establish a "black box+scenario+credit enhancement" KYB model, **build a scenario-based and transactional financial service platform** for accounts receivable, and **develop an AI intelligent transaction system** to provide intelligent investment management service.

Management: solidify operation process on the system to reduce operational risk and improve operational efficiency, **systematize management** to reduce manual operation and achieve compliant and efficient management, **enhance information security management** by improving system stability and establishing a real-time monitoring and emergency response mechanism.

Strengthen coordinations with business unites

Bring in technologies/talents: hire more talents, especially experts in KYB, AI and other fields, bring in leading technologies such as face recognition, voiceprint recognition and Ping An Cloud to the Group, and establish an agile development model.

Invest in resources: transform the basic system structure, and set up the layout of distributed IT system in advance, optimize processes, and solidify processes on the system.

Connect scenarios: dig the demands such as government finance, corporate payments and settlements, corporate financing and personal consumption, and connect to external platforms by using plug-ins to import the B2B2C traffic.

Make good use of data: take advantage of big data platform of the Group, connect the accumulated data within the Bank, dig and use such data and strengthen external data connection.

Deepening strategy in 2018: ecosystem strategy

- Develop ecosystem strategy of the Bank based on the Group's overall ecosystem.

Auto

- Investment in new auto industry
- Ecological comprehensive service for consumers

Housing

- Investment expert in real estate industry/expert in capital market
- Finance manager based on RIB construction

Health Care

- Investment and financing expert in health care industry
- KYB for small and medium-sized medical institutions

Smart City

- Think-tank and manager for government debts
- Management expert for government liquidity and sedimentary funds
- Citizen cards
- Wisdom education

Finance

- Empowering partner for small and medium-sized financial institutions
- Intelligent interbank asset matching platform
- Market maker for bonds, derivatives and ETF

Cross-ecosystem subjects:

1. Account system(B+C)

2. Consumer panorama

3. Ecosystem smart business platform

4. Ecosystem fund matching platform

Supporting framework:

Organization

Control

Assessment

Incentive

Data

Technology

THANK
YOU



平安银行
PING AN BANK

