

2018 Interim Report Summary of Ping An Bank

I. Important Notes

1. This interim report summary (hereinafter referred to as the “Summary”) is extracted from the full text of the interim report (hereinafter referred to as the “2018 Interim Report” or the “Interim 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 Interim Report, which is available on the media designated by China Securities Regulatory Commission.

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 Interim Report, in which there are no false representations, misleading statements or material omissions, and are severally and jointly liable for its contents.

3. The 19th meeting of the 10th session of the Board of the Bank deliberated the 2018 Interim Report and the Summary. The meeting required a quorum of 14 directors, and 14 directors attended the meeting. The Interim Report was approved unanimously at the meeting.

4. The 2018 Interim Financial Report prepared by the Bank is unaudited, but it has been reviewed by PricewaterhouseCoopers Zhongtian LLP.

Notification of non-standard audit opinion

Applicable Not applicable

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 2018 Interim Report.

6. Preliminary plans of profit distribution or conversion of capital reserve into share capital deliberated by the Board during the reporting period:

Applicable Not applicable

There was no proposal to distribute cash dividends, issue bonus shares or to convert capital reserve to share capital for the first half of 2018.

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

Applicable Not applicable

Time of distribution	Dividend yield	Amount of distribution (in RMB) (tax inclusive)	Compliance with distribution requirements and relevant procedures	Dividend payment method	Accumulation of dividends	Participation in retained earnings
7 March 2018	4.37%	RMB4.37 (inclusive of tax) per preference share as dividends	Y	Cash payment	N	N

II. Company profile

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	
Contact 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	
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E-mail	pabdsh@pingan.com.cn	pabdsh@pingan.com.cn	

III. Major financial data

(I) Major accounting data and financial indicators

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

Yes No

The Bank started to adopt new accounting standards for financial instruments from 1 January 2018. Under the transitional provisions of new standards, the Bank is not required to restate comparatives and the adjustment of differences between original standards and first-day adoption of new standards is recorded into retained earnings at the beginning of the period or other comprehensive income. See “II. Summary of significant accounting policies and accounting estimates 37 Effect of significant changes in accounting policies” in “Section XI Financial Report” for relevant impact.

(In RMB million)

Item	30 June 2018	31 December 2017	31 December 2016	Change at the end of the reporting period from the end of last year
Total assets	3,367,399	3,248,474	2,953,434	3.7%
Shareholders' equity	228,141	222,054	202,171	2.7%
Shareholders' equity attributable to ordinary shareholders	208,188	202,101	182,218	3.1%
Share capital	17,170	17,170	17,170	-
Net asset per share attributable to ordinary shareholders (RMB/share)	12.13	11.77	10.61	3.1%

Item	Jan. - Jun. 2018	Jan. - Jun. 2017	Jan. - Dec. 2017	Change at the reporting period from
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				the same reporting period of last year
Operating income	57,241	54,069	105,786	5.9%
Operating profit before impairment losses on credit and assets	39,700	40,180	73,148	(1.2%)
Impairment losses on credit and assets	22,298	23,716	42,925	(6.0%)
Operating profit	17,402	16,464	30,223	5.7%
Profit before tax	17,367	16,432	30,157	5.7%
Net profit attributable to shareholders of the Company	13,372	12,554	23,189	6.5%
Net profit attributable to shareholders of the Company after deducting non-recurring gains/losses	13,326	12,512	23,162	6.5%
Net cash flows from operating activities	7,455	(128,180)	(118,780)	Negative amount for the same period of last year
Ratio per share (RMB/share):				
Basic/diluted earnings per share (EPS)	0.73	0.68	1.30	7.4%
Basic EPS after deducting non-recurring gains/losses	0.73	0.68	1.30	7.4%
Net cash flows from operating activities per share	0.43	(7.47)	(6.92)	Negative amount for the same period of last year
Financial ratios (%):				
Return on total assets (unannualised)	0.40	0.41	N/A	-0.01 percentage point
Return on total assets (annualised)	0.79	0.81	0.71	-0.02 percentage point
Average return on total assets (unannualised)	0.40	0.42	N/A	-0.02 percentage point
Average return on total assets (annualised)	0.81	0.83	0.75	-0.02 percentage point
Weighted average return on net assets (unannualised)	6.13	6.21	N/A	-0.08 percentage

				point
Weighted average return on net assets (annualised)	12.36	12.56	11.62	-0.20 percentage point
Weighted average return on net assets (net of non-recurring gains/losses) (unannualised)	6.11	6.19	N/A	-0.08 percentage point
Weighted average return on net assets (net of non-recurring gains/losses) (annualised)	12.31	12.51	11.61	-0.20 percentage point

Note: (1) On 7 March 2016, the Bank issued non-cumulative preference shares of RMB20 billion in a non-public way. In calculating the “EPS” and “weighted average return on net assets”, numerators were net of the dividends on preference shares paid.

(2) The Bank complied with provisions related to presentation in *Accounting Standard for Business Enterprises No. 42 - Non-current Assets Held for Sale, Disposal Groups and Discontinued Operations* and *Circular on Amendment to Formats of Financial Statements of General Industry* in the 2017 Annual Report, and separately included “gains or losses on disposal of assets” in “operating income” on the income statement. Comparatives of “operating income”, “operating profit before impairment losses on credit and assets” and “operating profit” for the first half of 2017 were respectively adjusted from RMB54,073 million to RMB54,069 million, RMB40,184 million to RMB40,180 million, RMB16,468 million to RMB16,464 million.

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 (in shares)	17,170,411,366
Fully diluted EPS calculated based on the latest share capital (RMB/share, accumulated from January to June 2018)	0.73

Information of loans and deposits

(In RMB million)

Item	30 June 2018	31 December 2017	31 December 2016	Change at the end of the reporting period from the end of last year
Due to customers	2,079,278	2,000,420	1,921,835	3.9%
Including: Corporate deposits	1,673,508	1,659,421	1,652,813	0.8%
Personal deposits	405,770	340,999	269,022	19.0%
Total loans and advances to customers	1,848,693	1,704,230	1,475,801	8.5%
Including: Corporate loans	849,767	855,195	934,857	(0.6%)
General corporate loans	820,173	840,439	920,011	(2.4%)
Discounted bills	29,594	14,756	14,846	100.6%
Personal loans	613,193	545,407	359,859	12.4%
Credit card receivables	385,733	303,628	181,085	27.0%
Loss provision for loans and advances to customers	(54,486)	(43,810)	(39,932)	24.4%

Net loans and advances to customers	1,794,207	1,660,420	1,435,869	8.1%
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Note: Pursuant to the *Notice on Adjusting the Statistical Standards for 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 30 June 2018, the total deposits and the total loans amounted to RMB2,549.2 billion and RMB1,895.6 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	Jan. - Jun. 2018	Jan. - Jun. 2017	Jan. - Dec. 2017
Gains or losses on disposal of non-current assets	80	87	101
Gains or losses on contingency	1	-	(1)
Others	(21)	(32)	(65)
Income tax effect	(14)	(13)	(8)
Total	46	42	27

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*.

(II) Supplementary financial ratios

(Unit: %)

Item	Jan. - Jun. 2018	Jan. - Jun. 2017	Jan. - Dec. 2017	Change at the reporting period from the same reporting period of last year
Cost/income ratio	29.66	24.76	29.89	+4.90 percentage points
Credit costs (unannualised)	1.18	1.47	N/A	-0.29 percentage point
Credit costs (annualised)	2.37	2.94	2.55	-0.57 percentage point
Deposit-loan spread (annualised)	3.81	4.13	3.99	-0.32 percentage point
Net interest spread (NIS) (annualised)	2.06	2.29	2.20	-0.23 percentage point
Net interest margin (NIM) (unannualised)	1.12	1.22	N/A	-0.10 percentage point
Net interest margin (NIM) (annualised)	2.26	2.45	2.37	-0.19 percentage point

Notes: Credit costs = credit provisions for the period / average loan balance (including discounted bills) for the period. In the first half of 2018, average loan balance (including discounted bills) of the Bank was RMB1,778,740 million (in the first half of 2017: RMB1,555,091 million). 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.

(III) Supplementary regulatory indicators

(Unit: %)

Item	Standard level of indicator	30 June 2018	31 December 2017	31 December 2016
Liquidity ratio (RMB and foreign currency)	≥ 25	60.40	52.23	49.48
Liquidity ratio (RMB)	≥ 25	60.50	52.57	47.62
Liquidity ratio (foreign currency)	≥ 25	69.49	55.41	99.04
Loan/deposit ratio including discounted bills (RMB and foreign currency)	N/A	87.44	83.58	75.21
Liquidity coverage ratio	≥ 100 (at the end of the year)	123.60	98.35	95.76
Capital adequacy ratio	≥ 10.5	11.59	11.20	11.53
Tier one capital adequacy ratio	≥ 8.5	9.22	9.18	9.34
Core tier one capital adequacy ratio	≥ 7.5	8.34	8.28	8.36
Ratio of loans to the single largest customer to net capital	≤ 10	5.08	5.20	5.19
Ratio of loans to top 10 customers to net capital	N/A	20.13	22.79	25.78
Ratio of accumulated foreign exchange exposure position to net capital	≤ 20	1.45	1.22	4.11
Pass loans flow rate	N/A	2.39	5.20	7.14
Special mentioned loans flow rate	N/A	26.78	30.41	37.56
Substandard loans flow rate	N/A	76.85	73.69	43.83
Doubtful loans flow rate	N/A	99.76	64.37	71.14
Non-performing loan (NPL) ratio	≤ 5	1.68	1.70	1.74
Provision coverage ratio	≥ 150	175.81	151.08	155.37
Provision to loan ratio	≥ 2.5	2.95	2.57	2.71

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* issued by CBIRC, the liquidity coverage ratio of commercial banks shall reach 100% by the end of 2018; during the transitional period, the liquidity coverage ratio shall be no less than 90%.

IV. Number of shareholders and shareholding conditions

(I) Number of ordinary shareholders and preference shareholders with recovered voting rights, and shareholdings of top ten shareholders

(Unit: Share)

Total number of ordinary shareholders as at the end of the reporting period	435,978			Total number of preference shareholders with recovered voting rights as at the end of the reporting period	-			
Shareholdings of top ten shareholders								
Name of shareholder	Nature of shareholder	Number of shares held	Shareholding (%)	Changes during the reporting period	Number of selling - restricted shares held	Number of selling - 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	-	-	8,510,493,066	-	-
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	425,247,429	2.48	-64,927,942	-	425,247,429	-	-
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	343,893,739	2.00	-20,875,355	-	343,893,739	-	-
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	-	-	186,051,938	-	-
Henan Hongbao (Group) Co., Ltd.	Domestic legal entity	99,441,107	0.58	20,582,120	-	99,441,107	-	-
Xinhua Life Insurance Co., Ltd. - dividend - dividend for individual -018L-FH002 Shen	Domestic legal entity	49,603,502	0.29	-3,890,000	-	49,603,502	-	-

Manulife Teda Fund - CMBC - Manulife Teda Fund Value Growth Targeted Placement No. 193 Asset Management Plan	Domestic legal entity	40,708,918	0.24	-	-	40,708,918	-	-
Details of strategic investors or general legal persons becoming top 10 shareholders for issuing new shares (if any)	None							
Explanation of the connected relationship or acting-in-concert relationship among the above shareholders	<p>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.</p> <p>2. The Bank is not aware of any related relationship or concerted action among any of other shareholders.</p>							

(II) Change of controlling shareholders or actual controlling person

The Bank has no actual controlling person. There is no change in controlling shareholders of the Bank in the reporting period.

(III) Total number of preference shareholders and shareholdings of top ten preference shareholders

(Unit: Share)

Total number of preference shareholders at the end of the reporting period	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	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	-	-	-
Ping An Life Insurance Company of China, Ltd. - universal - individual universal	Domestic legal entity	19.34	38,670,000	-	-	-
Ping An Property & Casualty Insurance Company of China,	Domestic legal entity	9.67	19,330,000	-	-	-

Ltd. - traditional - ordinary insurance products						
China Post & Capital Fund - Hua Xia Bank - Hua Xia Bank Co., Ltd.	Domestic legal entity	8.95	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	-	-	-
Bank of China Limited Shanghai Branch	Domestic legal entity	4.47	8,930,000	-	-	-
Postal Savings Bank of China Domestic Co., Ltd.	Domestic legal entity	2.98	5,950,000	-	-	-
China Resources Sztic Trust Co., Ltd. - Investment No. 1 List - Capital Trust	Domestic legal entity	2.98	5,950,000	-	-	-
Hwabao Trust Co. Ltd. - Investment No. 2 Capital Trust	Domestic legal entity	2.98	5,950,000	-	-	-
Merchants Wealth - Postal Savings Bank - Postal Savings Bank of China Co., Ltd.	Domestic legal entity	2.98	5,950,000	-	-	-
Description of different requirements on other terms of preference shares held other than dividend distribution and residual property distribution	Not applicable					
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 & 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 & 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>					

(IV) Corporate bonds

Whether the company has corporate bonds which are publicly issued and listed on the stock exchange, undue on the date of approval of the financial report or failing to be fully paid on due date

Yes No

V. Discussion and Analysis of Operations

(I) Brief introduction of the operations during the reporting period

In the first half of 2018, facing the vibrant applications of the financial technology, further development of financial reform and complicated political, economic and financial situation at home and abroad, the Bank responded actively to the development strategy proposed by the Party and the state, paid close attention to the macro-economic and industrial development trend, and adapted to the domestic and international new economic and financial situations. In addition, it continued to adhere to the principle of “being technology-driven, pursuing breakthroughs in retail banking, and reinventing its corporate banking” based on its own advantages and characteristics, further enhanced technology application and innovation and attracted high-tech talents from international market to use technology to propel its business development. On the one hand, it continued to advance the transformation of intelligent retail banking; on the other hand, it expanded the transformation of corporate banking to promote its transformation from inorganic growth driven by scale to organic growth driven by value and quality. At the same time of driving its business development, the Bank made solid efforts to prevent and mitigate all types of risks and build a more solid foundation for its future development. The Bank’s overall operations in the first half of the year are summarised below:

1. Robust business development

In the first half of 2018, the Bank recorded operating income of RMB57,241 million, representing a year-on-year increase of 5.9%, of which the net non-interest income amounted to RMB19,805 million, representing a year-on-year increase of 18.5%, mainly due to the increase in fee from credit card business. The net non-interest income accounted for 34.6% of the operating income, a year-on-year increase of 3.7 percentage points. The operating profit before provisions was RMB39,700 million, a decrease by 1.2% year on year, and the net profit was RMB13,372 million, an increase by 6.5% year on year. The profitability maintained stable.

At the end of June 2018, the Bank’s total assets amounted to RMB3,367,399 million, up 3.7% over the end of last year; the balance of deposits due to customers was RMB2,079,278 million, up 3.9% over the end of last year. The total loans and advances to customers (including discounted bills) amounted to RMB1,848,693 million, representing an increase of 8.5% as compared with the end of last year, of which personal loans (including credit cards) accounted for 54.0%, an increase of 4.2 percentage points over the end of last year.

2. Strong progress in retail transformation

At the end of June 2018, assets under management (AUM) of retail customers of the Bank amounted to RMB1,217,380 million, up 12.0% over the end of the previous year; the number of retail customers reached 77,053.7 thousand, up 10.2% over the end of the previous year, including 525.9 thousand private wealth customers and 25.8 thousand qualified private banking customers, representing increases of 15.2% and 9.6% respectively over the end of the previous year. At the end of June 2018, the current credit card accounts reached 45,769.6 thousand, an increase of 19.4% over the end of the previous year. The balance of retail deposits was RMB405,770 million, an increase of 19.0% over the end of the previous year, and the balance of retail loans was RMB998,926 million, an increase of 17.7% over the end of the previous year, accounting for 54.0% of total loans; the total transaction volume of credit cards amounted to RMB1,207,227 million, rising by 89.9% year on year. The market share of its interbank credit card POS transactions continued to increase, with a total of 20,350

thousand monthly active users of Ping An Pocket Bank APP, up by 37.3% from the end of the last year. In the first half of 2018, the operating income of retail business reached RMB29,316 million, a year-on-year increase of 34.7% and accounting for 51.2% of the Bank's total operating income; the net profit of retail business reached RMB9,079 million, a year-on-year increase of 12.1% and accounting for 67.9% of the Bank's total net profit.

3. Intensified efforts in reinventing corporate banking

In the first half of 2018, the Bank continued its efforts to fine-tune its corporate banking structure, the asset structure was adjusted in an orderly way and deposits maintained stable and improving growth. In the first half of 2018, new credit loans mainly focused on the Bank's ten priority industries, including medical and health care; the balance of loans to high-risk industries, including steel, thermal power generation and coal, decreased as compared with that at the beginning of the year, as the Bank optimized its portfolios with well-planned entries and exits. In the first half of 2018, the Bank's new credit customers were mainly those from industries with low default rates, such as leasing and business services; customers from industries with high default rates, including wholesale and retail, and manufacturing, were reduced in an orderly manner as the Bank further enhanced its customer structure.

In order to improve returns on assets, the Bank reduced businesses and customers with high consumption but low returns in the first half of 2018. At the end of June 2018, the balance of risk-weighted assets from corporate banking decreased by RMB32 billion to RMB819 billion from the end of last year, and the balance of risk-weighted assets from banks and other financial institutions decreased by RMB58.2 billion to RMB315.6 billion from the end of last year. Under the circumstance of continuous adjustment of asset structure, deposit business overcame the transformation stress and maintained a stable scale. At the end of the first half of the year, deposits maintained steady and improving growth.

4. Encouraging results from technology-driven efforts

The Bank regarded "being technology-driven" as its primary development strategy and continued to increase investment in technology. In the first half of 2018, the Bank's investment in technology saw a significant increase, with IT capital expenditure year-on-year increase of about 165%, and its technology team continued to expand. It attracted high-tech talents to optimise the team structure and improve its overall capability to use technology to drive innovation and development. At the end of June 2018, the headcount of the Bank's technology team reached 4,800 (including outsourced talents), representing a year-on-year increase of over 25%. Additionally, the Bank took the initiative to implement agile transformation to achieve deep integration between technology and business, and effectively enhance the quality of deliverables and customer experience. Meanwhile, it created a flexible, secure and open technology platform to support the rapid business growth and transformation to the Internet. The Bank continued to promote technological innovation, took advantage of its core technologies and resources in the fields of AI, blockchain, cloud computing, etc., and applied new technologies to empower its business development, so as to continuously enhance customer experience, enrich financial products, innovate business models, improve risk control system, optimise operational efficiency and promote intelligent management. The Bank's "technology-driven" strategic transformation has delivered promising benefits.

5. Good momentum in asset quality

The Bank proactively responded to external risks, adjusted business structure, and increased loans to high-quality retail businesses. It continued reinventing and refining its corporate banking, with focus of new businesses in high-growth potential industries and those well aligned with the national development strategies. The Bank gathered its competitive resources to invest in high-quality and high-potential customers, facilitate the development of upstream and downstream supply chains, industrial chains or ecosystem customers, and maintain good risk performance of new customers. Meanwhile, it continued to adjust the structure of existing assets and

strengthened the recovery and disposal of problematic assets. As a result, the asset quality maintained a good momentum.

At the end of June 2018, the balance and the proportion of overdue loans and loans overdue for more than 90 days of the Bank both declined over the end of last year, and the non-performing ratio and special mention rate also decreased over the end of last year. The balance of overdue loans amounted to RMB56,841 million, a decrease of RMB1,903 million, accounting for 3.07% of total loans, down 0.37 percentage point over the end of last year; the balance of loans overdue for more than 90 days reached RMB38,518 million, a decrease of RMB2,942 million, accounting for 2.08% of total loans, down 0.35 percentage point over the end of last year. The NPL ratio was 1.68%, decreasing by 0.02 percentage point from the end of last year, and the special mention rate was 3.41%, decreasing by 0.29 percentage point from the end of last year.

In the first half of 2018, the provisions for credit losses and asset impairments amounted to RMB22,298 million, a year-on-year decrease of 6.0%, including RMB21,044 million of provisions for credit losses on loans and advances to customers; at the end of June 2018, the balance of loan loss provisions reached RMB54,486 million, an increase of 24.4% over the end of last year; the provision to loan ratio was 2.95%, up 0.38 percentage point over the end of last year; the provision coverage ratio was 175.81%, up 24.73 percentage points over the end of last year; the provision coverage ratio of loans overdue for more than 90 days was 141.46%, up 35.79 percentage points over the end of last year. In the first half of 2018, total non-performing assets recovered by the Bank amounted to RMB12,325 million, a year-on-year increase of 180.1%, including credit assets (loan principals) of RMB11,503 million; for the recovered loan principals, loans written off and non-performing loans not written off were RMB6,559 million and RMB4,944 million respectively; 96.8% non-performing assets were recovered in cash, and the rest were paid in kind.

6. Rational layout of outlets

The Bank continued to implement the intelligent construction of outlets and set the layout of the outlets rationally. As at the end of June 2018, it had a total of 73 branches and a total of 1,073 business entities. In the first half of 2018, the Bank had opened or redecorated 46 new retail outlets, with the total expected to reach 100 at the end of the year.

(II) Discussion and analysis of the main businesses

1. Breakthroughs in retail banking

In the first half of 2018, the Bank took the new advantage of comprehensive finance and scientific and technological innovation, focused on customers, optimised business processes 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.

At the end of June 2018, the balance of assets under management (AUM) of retail customers of the Bank amounted to RMB1,217,380 million, representing an increase of 12.0% over the end of the previous year, and the number of retail customers reached 77,053.7 thousand, an increase of 10.2% over the end of the previous year, among which private wealth customers and qualified customers of private banks reached 525.9 thousand and 25.8 thousand respectively, representing an increase of 15.2% and 9.6% over the end of the previous year; the current credit card accounts reached 45,769.6 thousand, an increase of 19.4% over the end of the previous year; the balance of retail deposits was RMB405,770 million, an increase of 19.0% over the end of the previous year and the balance of retail loans was RMB998,926 million, an increase of 17.7% over the end of the previous year; the transaction volume of credit cards amounted to RMB1,207,227 million, rising by 89.9% year on year.

At the end of June 2018, the non-performing ratio of the Bank's retail business maintained stable with a slight decline. Non-performing ratio of retail loans was 1.05%, down 0.13 percentage point from the end of last year,

among which non-performing ratio of retail loans (excluding credit cards and personal business loans) was 0.35%, the same as that at the end of last year, and non-performing ratio of credit cards was 1.19%, basically the same as that at the end of last year. The asset quality of credit cards remained stable. At the same time, the proportion of major loan products of retail (New Generation Loan, car loans) from not overdue to overdue for over 30 days maintained at a historically low level and the trend of early warning indicators was steady.

1.1. Stable and rapid growth in core businesses

In the first half of 2018, the number of new credit cards issued by the Bank reached 9,179.8 thousand, up by 81.2% year-on-year. At the end of June 2018, the balance of credit card loans was RMB385,733 million, an increase of 27.0% from the end of last year. The Bank enriched its credit card product system, deepened cross-border integration, and satisfied customers with diversified, multi-scene, and convenient and efficient card use requirements. In cooperation with Shanda Games in February 2018, the Bank launched Ping An “Final Fantasy XIV” series exclusive co-branded credit card, continued to enrich Ping An UNI Card family members, to provide more personalised options for young customer groups; in March 2018, the Bank joined hands with Manchester United Football Club to launch Ping An Manchester United Red Devil Platinum Credit Card and created a brand new cross-border financial service experience for fans. In the same month, in cooperation with Tencent Video, the Bank launched Ping An Tencent Video VIP Co-brand Credit Card to provide traffic customers with both a credit card financial service function and Tencent video member preferential rights. At the same time, relying on the integrated and upgraded new Pocket Bank APP, the Bank continuously improved its one-stop integrated financial service platform, enriched the one-click link of credit card-based financial services and life scenarios, and continued to create the ultimate customer experience of “fast, easy and good”.

In the first half of 2018, the New Generation Loans newly issued by the Bank totalled RMB56,365 million; at the end of June 2018, the balance of the New Generation Loans amounted to RMB144,769 million and the non-performing ratio was 0.77%. In order to support inclusive finance, ease the financing difficulties of small and micro enterprises, better serve the development of the real economy, and effectively drive the shift of financial resources from the financial economy to the real economy, the New Generation Loans focused on supporting small and micro enterprises and individual businesses, among others, as part of the Bank’s ongoing efforts to address their financing difficulties in the medium- and long-term, increase overall funding availability to these small and micro enterprises, and facilitate the robust and sustainable development of its lending to individual businesses, including approximately 30% as working capital loans. At the same time, drawing on the technological advantages of the Internet and big data, it actively expanded its Internet channels and traffic portals, focused on increasing the entrance of scenarios, expanded the coverage of customers, enhanced the customer stickiness, achieved on-line and off-line linkages, and continuously improved the accuracy of customer acquisition, so that banking services could benefit more customer groups. The Bank built a one-stop business and consumer loan platform through Internet channels such as online banking, mobile banking, WeChat, and portals, made full use of Internet technology to enhance product competitiveness, achieve centralised, automated and intelligent business application processing, continuously optimised business processes and improved customer experience and service efficiency.

In the first half of 2018, the Bank’s new auto finance business loan amounted to RMB71,612 million, an increase of 52.7% year-on-year; at the end of June 2018, the Bank’s car loan balance was RMB141,363 million, an increase of 8.3% from the end of the previous year, and its market share continued to lead the industry. By means of innovation in products, optimisation of the credit process and application of the scientific risk qualification model as well as the big data strategy, the Bank got 67% of credit approval automatically done by its auto finance business system, increasing by 2 percentage points over the end of last year and 59% of credit approval over second-hand cars automatically done by the system, up 4 percentage points from the end of last year, thus

rendering better customer experience and gaining leading strengths in the industry. The Bank continued to strengthen channel innovation and service innovation, and provided customers with more efficient and convenient business application methods through online channels such as mobile phone Pocket Bank, WeChat, and websites, to effectively improve customer experience and satisfaction.

At the end of June 2018, the Bank's property mortgage balance amounted to RMB171,722 million, representing an increase of 12.3% over the end of last year. The Bank strictly conformed to the regulations of national policies and regulatory requirements to support the need of resident families for purchasing their first set of self-occupied houses. It will continue to steadily carry out housing credit business under compliance and regulatory requirements, enhance housing credit management, optimise credit structure, further serve customers and support the real economy.

1.2. Technology-drive business development

The Bank increased investment in technology, integrated and established a retail-exclusive IT team of over 2,500 people, embraced cutting-edge technologies such as AI, biometrics, big data, blockchain and cloud computing, upgraded the on-line Pocket Bank APP embedded with various financial technologies and services and launched a Pocket Banker APP supporting mobile process and interactive communication for the staff in the Bank, opened new off-line retail outlets under "light, community-based, intelligent, diversified" concept, and integrated and built an intelligent OMO (ONLINE MERGE OFFLINE, realising on-line and off-line integration) service system.

The intelligent OMO service system seamlessly connected the customers' Pocket Bank APP with new retail outlets through the Pocket Banker APP used by the Bank's staff, and integrated various on-line and off-line service scenarios. The on-line tool made it convenient for off-line outlets and teams, while off-line outlets and teams introduced customers and businesses to the on-line tool, providing customers with integrated and seamless experience.

The intelligent OMO service system had optimised business process and service experience since it was launched. It gained customers' recognition and achieved satisfactory results. At the end of June 2018, the number of users of the Bank's Pocket Bank APP reached 51,450 thousand, up 23.3% over the end of last year, and the number of monthly active customers amounted to 20,350 thousand, up 37.3% over the end of last year. The Pocket Banker APP realised 100% front-line staff coverage, and supported more than 90% of non-cash operations, comprehensively improving team efficiency and service scope. The Bank had opened or redecorated 46 new retail outlets and the number is expected to reach 100 at the end of the year.

In addition, the Bank fully leveraged the Group's scientific and technological strength, developed and launched a wealth of financial technology applications. With respect to scenario operation, the Bank, on the one hand, connected with external scenarios to build B2B2C model, and linked to scenarios and traffic of third-party platforms via technical methods such as APP interface and H5 plug-in, to provide customers with more convenient products and services; on the other hand, the Bank explored its own scenarios for intensifying operation of Credit Card Pocket Mall, guiding customer flow and attracting customers through on-line APP, social media and remote customer service and off-line branches and brand promotion. In the first half of 2018, the transaction volume of Credit Card Pocket Mall increased by 182.8% year on year.

For service marketing, the Bank made full use of AI technology. It carried out machine learning of customer service Q&A data accumulated for many years, cooperated with Ping An Technology to build the AnBot (a self-owned intellectual property) for customer services, and established a 7×24-hour "AI Customer Service" system based on the comprehensively collected user data and omni-channel tool deployment. Additionally, the Bank launched "AI + Advisor" series - wealth diagnosis and Ping An intelligent investment function, which could provide customers with personalised product investment portfolio plan based on their transaction records and risk

preference.

In terms of strengthening risk control, the Bank deployed about 40 sets of big data risk models at each customer-related process to monitor and assess risks in an all-round way, and launched the “AI + Risk Control” project, which could achieve total credit line management and control for credit products, overall automatic approval and second-level precise decision. Meanwhile, it managed anti-fraud of debit and credit cards on a unified basis, built an anti-fraud defence line at large retail enterprise level, supported the daily tens of millions of financial transactions, thereby changing the current status that the improvement of overall operation capacity of traditional anti-fraud platform relied on the increase of work force. Unified anti-fraud model already has the ability to provide review service for various credit products.

1.3. Continuously enhancing contribution in comprehensive finance

In the first half of 2018, 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 recommendation, 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 Good 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.

In the first half of 2018, the number of new migration customers (excluding credit cards) on the cross-selling channels was 1,940,900, accounting for 39.3% of the overall new retail customers (excluding credit cards), of which, the number of private financial customers had a net increase by 27,400, accounting for 39.5% of the overall new private financial customers, and the AUM balance of assets under management of retail customers had a net increase by RMB55,803 million, accounting for 42.7% of the overall asset balance of the new customers. New Generation Loans granted by cross-selling channels amounted to RMB23,241 million, accounting for 41.2% of overall issuance of New Generation Loans through cross-selling channels; auto finance loans amounted to RMB12,231 million, accounting for 17.1% of overall issuance of auto finance loans. Credit cards granted by cross-selling channels accounted for 38.2% 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 RMB1,291 million, a year-on-year increase of 33.0%.

1.4. Initial breakthrough in key projects

In the first half of 2018, the number of enterprises receiving payroll agency services provided by the Bank increased by 2,491, a year-on-year increase of over ten times; the balances of AUM and deposits from customers receiving agency services were respectively RMB135,618 million and RMB49,236 million, respectively increasing by 33.7% and 12.5% year on year. The Bank created the “Benefits Manager” 2.0 brand to continuously provide innovative products and benefits for enterprise owners, finance, human resources personnel and enterprise employees through an agile and efficient cross-department coordination mechanism. The Bank also used scientific measures, such as facial recognition, on-line application for cards, etc., to remarkably increase the effectiveness for opening accounts and first payment of salaries. The Bank promoted the effectiveness for salary payment by improving the payment process and achieving direct connection between banks and enterprises and combination of one-click payment and real-time charging across banks. Meanwhile, the Bank proactively explored cross-sector cooperation with human resource platform to provide enterprises with a one-stop solution for human resource management system and salaries and welfare for industrialised and batch marketing.

At the end of June 2018, the number of the Bank’s customers of bank card acceptance business increased by 63.3% over the end of previous year. The Bank established a functionally complete bank card acceptance platform and a product system, launched all-mode acceptance service, and initially built up its differentiated competitiveness,

including the first batch of “Union pay integration code” and “one-time code token” that supports “three codes in one”, on-line submission service via Shouyinbao App/H5/applets, and specialised mobile payment acceptance products and applet services to lay a solid foundation for rapid development of business.

1.5. Deepened Promotion of Organisational Transformation to Agility

In the first half of 2018, as the first commercial bank that fully promoted agile transformation in retail business, the Bank continued to implement agile practices, and appointed professional chief technology officer and chief product officer in each business unit, who were directly involved in business decision-making, strived to recruit over a hundred of professional talents in Internet technology, products and marketing, and accelerated the realisation of Internet thinking and technology-driving in each line of service to encourage employees to perform daily work and operation management on an on-line and mobile basis by means of various tools in an all-around way, establish a vertical mechanism for management and control coordination across the “head office - branches - sub-branches - front line”, rapidly increase the operating efficiency of the organisation, and continuously strengthen the mechanism and ability for sustainable development of retail business.

Along with talents recruitment, in order to assist the implementation of transformation, the Bank focused on mutual understanding and merging between new technology talents and traditional finance talents to cultivate a group of inclusive professional talents with compound knowledge by exposing technology talents to fundamental financial knowledge and financial ecology and finance talents to fundamental science and technology language and International thinking. Meanwhile, in light of the formally start-up of the first new smart retail outlet, Guangzhou Liuhua Branch, the Bank further strengthened standardised management by starting the “Follow the Liuhua Branch model, Reform the Branch” project in the first half of 2018, which built up a mature standardised system in management and support for branch operation, promptly iterated and upgraded supports for platforms and tools, and fully improved the managing capability and professional skills of management and business teams.

In the first half of 2018, the Bank continued to promote the “innovative garage” mechanism for incubating large retail innovative products, services and models to integrate optimal resources for speedy development, experimentation and iteration. The Bank also constructed retail business forum to achieve communication, sharing and cooperation across lines of services, departments and levels so as to provide an open environment of communication and cooperation for the transformation toward an intelligent retail banking.

2. Reinventing corporate banking

Along with the steady progress of each corporate business, the Bank constantly created selective brand for corporate business from an industrialised perspective in a targeted manner, unswervingly guarding the lifeline of asset quality and persisting to the core objective of “selective bank for corporates”. For industry operation, the Bank further refined its business scope based on the selected industries in line with the “investment-oriented and comprehensive” development strategy, with deepened industry research and strict discipline of commitment and non-involvement. The Bank led its own way by pre-planning and operating smartly. Meanwhile, the Bank strengthened the coordination between the internal and external part, enhanced the ability for “investment-oriented” products, and created a front-end marketing pattern of in-depth entry, network development and comprehensive operation with the advantages in licenses of the Group. For the implementation of “a combination of light assets and light capital”, the Bank loyally centred on customers in handling corporate business and actively refined its four selective abilities. The first is the professional ability to integrate different banking units, which is an “output” ability through platform, business and service. The second is the “embedding” ability to embed banking products or functions deeply into external scenarios/process. The third is the “introduction” ability to introduce external products and service function to enhance internal service. The fourth is the “match-making” ability to achieve win-win in the ecological circle with banks’ professional ability in finance and abundant accumulation in customers. The scale of bonds underwriting amounted to RMB81.5 billion, a year-on-year increase of 86%.

For specific strategy, the Bank actively integrated corporate business into the Group's top five ecological circle to explore the development path for ecology, focused on industrialised operation, and kept intensive exploitation in "10+1" key industries. At the same time, leading by science and technology, a brand new "platform+product+service" mobile product system was established based on latest science and technology measures on a light and selective basis; At the end of June 2018, "Pocket Finance" had 210,000 registered customers with the trading amount exceeding RMB100 billion. While promoting business, the Bank constructed "AI+risk control" comprehensive risk management system to actively implement intelligent risk management and control.

2.1. Selected industry sectors "10+1"

Focusing on the industries with large volume, weak cycle and sound growth, the Bank's corporate business selected top ten industries, including health care, real estate, electronic information, transportation, warehousing and logistics, environmental protection, clear energy, infrastructure, culture and education and people's livelihood industries, and integrated with the Group's five ecological circles like constructing automobile, real estate, medical and health service, intelligent city and financial institutions", covering 163 industry segments in 1,380 subclasses of national industries. The Bank will continuously select and adjust targeted industries in accordance with state policies.

Meanwhile, the Bank focused on financial authority customers such as central and local administrative institutions, mainly engaged itself in businesses such as finance, social security, land, real estate, justice, etc., and fully promoted the development of government finance. Taking the in-depth exploitation in non-tax collection business in government sector as an example, the Bank successfully created a multi-channel on-line toll platform based on "e-litigation" product that provided payment and notes management services to courts, embedded financial products into stages such as case registration, approval, enforcement, and achieved "smart court".

2.2. Establishment of "platform+product+service" mobile product system

The Bank's corporate business product inherited the leading practice and experience accumulation in supply finance and Internet finance to continuously upgrade business model and product ability. With respect to business model, with "platform+product+service" as the core idea of corporate customers business and Pocket Finance as the carrier, the Bank connected customers, products and operation services through united portal, brand, app, interface, and support. In the aspect of product ability, the Bank upgraded big data ability to establish an anti-fraud and automatic approval system and targeted corporate business product marketing system by integrating internal and external data source; embraced block chain technology to combine characteristics such as smart contract, zero knowledge authentication with supply chain finance; and strengthened application of artificial intelligence to improve customer experience and customer transformation in operation, customer service and product shelf.

2.2.1 Corporate customer entry and operation platform: Pocket Finance

The Bank launched a corporate-class mobile Internet comprehensive financial service platform - Pocket Finance App to seek smart, complete and rapid corporate customer service experience. As a unified entry for corporate customers to access the Bank's products and services, Pocket Finance carries a financial service system that covers the entire financial operation cycle from corporate account opening to investment and financing, forming a close-end mobile one-stop, contextualised and customised service ecology via rapidly-iterated technical support and resource coordination. At the end of 2017, Pocket Finance App was officially launched; In February 2018, comprehensive financial products were launched in succession; In April 2018, innovative products such as KYB were put into production; In June 2018, the new version of Pocket Finance was completed and part of the functions were fully upgraded. In the first half of 2018, Pocket Finance had 210,000 registered customers with the trading amount exceeding RMB100 billion.

2.2.2 Internet finance: SME data loans (KYB)

The Bank launched SME data loan KYB (Know Your Business) to establish a convenient, effective and data-driven intelligent financing service with smart risk control for corporate customers. KYB integrated corporate financial service data resource to construct a data credit financing service system that serves small and medium enterprises through the application of modelling and AI. KYB introduced high-quality customers in industry ecological circles, continuously intensified flow gains and expanded business scale with intelligent risk control and operation of industry scenarios and customer groups. At the beginning of 2018, KYB business in health care and medication chain industries was successfully implemented; In May 2018, the amount of loans lent on an individual day exceeded RMB100 million; In the first half of 2018, KYB had provided smart financing service for 8,623 small and medium-size enterprises.

2.2.3 Trading Finance: Supply chain accounts receivable service platform (SAS)

The Bank built up the supply chain accounts receivable service platform (SAS) based on A (AI, artificial intelligence), B(Block chain), C (Cloud computing) technologies to empower the upgrade of supply chain financial service model, provide on-line assets receivable transaction and circulation service for the upstream suppliers of core industry chain, promote the “dual-light” transformation of supply chain financial business, and support the financing through accounts receivable of small, medium, and micro-size enterprises. At the end of 2017, the filing of SAS platform business with regulatory authority and its first financing transaction were completed; in the first half of 2018, the amount of transactions through SAS platform exceeded RMB1 billion. Over a hundred of users had received support from the platform service.

In the future, based on the three main lines of “asset-driven, transaction leading, technology innovative”, SAS platform will further break through key links of assets and funds, forge alliance with third-party institutions, create a smart financing ecological circle of accounts receivable to construct an ecological environment in which enterprises from upstream and downstream of the supply chain can build mutual trust, benefit each other and develop together.

2.2.4 Cross-border finance: Cross-border E-commerce, selected off-shore banking

The Bank focused on enterprises’ needs for cross-border finance, made the most of its off-shore and on-shore overall advantages and coordination ability of domestic currency and foreign currency, and continuously improve the competitiveness of cross-border finance.

With respect to international business, the Bank relied on the leading Cross-border E-commerce finance service platform, providing all-around on-line service for customers’ needs in different stages of cross-border economic activities. In 2018, the Bank launched mobile app for Cross-border E-commerce finance platform and full upgraded GPI innovative payment service, which significantly increased the convenience of cross-border business on-line service for SMEs and further lowered the cost of cross-border transfers; at the same time, the Bank optimised cross-border e-commerce receipts and payments service and global cash management service provided by platform customers for the convenience of enterprises’ cross-border e-commerce activities and cross-border fund management. In the first half of 2018, the scale of transactions taking place on the Bank’s Cross-border E-commerce finance platform had exceeded RMB360 billion, a year-on-year increase of 50.7%.

With respect to offshore business, the Bank is one of the four Chinese-funded banks that own off-shore banking business license. In recent years, the Bank’s off-shore business was tightly combined with development pace of Chinese enterprises’ internationalisation in operation, financing and investment to support the “going out” of Chinese enterprises by providing following offshore financial services; meanwhile, the Bank provided cross-border financing service for domestic industries to support the development of real economy based on the full-coverage macro prudent management policies for cross-border financing. In the first half of 2018, focusing on

cross-border operation need of enterprises, the Bank's off-shore business continued to optimise the top four product systems of off-shore investment and financing, off-shore trading finance, off-shore inter-bank finance, and off-shore cross-border finance and promote the development of off-shore "dual-light" business, achieved stable growth in off-shore business, and maintained a leading position among Chinese-funded off-shore banks in main operation indicators.

2.3. Precise control of risk and intelligent protection

Based on comprehensive risk management, the Bank focused on shortcomings and disadvantages, precisely implemented policies to improve the result of risk management and control for the entire bank. The quality of assets remained stable with a positive trend.

2.3.1 Precisely leading business development. The Bank intensified industry research, promoted risk policy system preposition, focused on key industry, key customers and key products, guided a reasonable allocation of corporate resources in a scientific manner, and led business to development on a healthy and orderly basis.

2.3.2 Smart early warning for risks from stock assets. The Bank used "big data+artificial intelligence" technology to build up smart risk control platform and automatically identify and scan stock normal assets risk information on an around-the-clock, all-dimensional, visual and effective basis. The system could automatically collect, rapidly capture, smartly screen and precisely push risk warning signals, actively start a full-process close-end management including risk information investigation, early warning initiating, early warning tracking, early warning release, and perform refined, all-around and zero-blind spot monitor on risk assets to achieve early finding and early resolve of risks.

2.3.3 Smart operation of special assets. The Bank built up Ping An special asset management system (AMS) to achieve totally closed management over the disposal process of corporate special assets via the system to accelerate smart clearing and recovery. In the first half of 2018, the special asset management department recovered non-performing assets of RMB10,308 million, an increase of 243.7% on a year-on-year basis.

3. Being technology-driven

3.1. Expanding the technology teams

The Bank strived to attract science and technology talents, including recruitment of a large number of compound high-end technology talents from the Silicon Valley as well as overseas and domestic leading Internet enterprises to continuously optimise and improve science and technology talent teams and advocate the leading ability in science innovation. At the end of the reporting period, the number of Bank's technology staff reached 4,800 (including outsourcing talents), representing a year-on-year increase of over 25%.

3.2. Implementing agile transformation

The Bank was the first among domestic banks that "embed/dispatch" science and technology teams into lines of business to promote agile development and operation model to achieve a deep combination of technology and business. In the reporting period, the Bank continued to promote agile transformation for organisation. Subsequent to line of retail, the Bank applied science and technology dispatching model in corporate business line. Implementation of agile development in business sectors such as credit cards, auto finance, big data, Pocket Finance App significantly improved the speed of product iteration, delivery quality and customer experience.

3.3. Creating a leading technology platform

The Bank was committed to create a flexible, secure and open technology platform to support the rapid business growth, transformation to the Internet, and product service innovation. As of the reporting period, the Bank established a complete science and technology disaster recovery system and big data platform technology system, accomplished the cloud deployment of the whole development, test environment and part of the production environment (IaaS), completed the planning and model selection of distributed PaaS platform, fully promoted a

technical platform that based on micro-service in retail science and technology, and completely implemented the secure development quality management process (S-SDLC). In the first half of 2018, the Bank's Tenglong core system won the "2018 IDC Asia-Pacific Core Innovation Leader Prize", the "Pocket Bank Security Project" won the 2018 Asian Bankers' "Best Mobile Phone Security Project", and the "Indexing Assessment System of Data Centre Based on Big Data and Best Practice" won the 2017 Financial Science and Technology Outstanding Contribution Award issued by Financial Computerisation Magazine.

3.4. Deepening technological innovation

The Bank set up innovative garage, established innovation committee, promoted professional technology sequence to stimulate the innovation energy in science and technology with a good mechanism and fully facilitate the application of cutting-edge science and technology in the operation and management of banks. The Bank rapidly pushed forward the combination of cutting-edge technology and financial application scenarios based on the core technology and resources of Ping An Group in sectors such as artificial intelligence, block chain, cloud computing, big data, information security, etc.

With respect to big data and artificial intelligence, the Bank had constructed an intelligent analysis platform with over 1,000 labels to support targeted marketing and customer maintenance; completed the real-time detection engine based on knowledge graph technology and platform construction based on position service (LBS) to support anti-fraud analysis and risk detection; applied intelligent search and customer service to improve customer experience; introduced robot process automation (RPA) technology to significantly raise operating efficiency. The Bank applied AI+ risk management to personal and small and medium-size enterprise loans to achieve comprehensive O2O risk management and reduced credit losses by way of intelligent risk control platform; It also assisted small and medium-size enterprises to obtain loans by utilising the big data from Know Your Business (KYB) to serve thousands of small and medium-size enterprises.

With respect to bio-identification technology and image recognition technology, the Bank improved customer experience by enhancing customer identification security with facial and vocal recognition technology. In the respect of block chain, the Bank continued to explore in-depth application and innovation in supply chain finance, created the supply chain accounts receivable service platform (SAS platform), and ensured the traceability of assets to prevent falsification.

VI. Matters relating to Financial Reporting

1. Reason for changes in accounting policies, accounting estimates and accounting methods as compared with the last year

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

Applicable Not Applicable

The Bank started to adopt new accounting standards for financial instruments from 1 January 2018. Under the transitional requirements of the new standards, the Bank is not required to restate comparatives, and the adjustments for differences between the former and new standards upon first adoption of the new standards are recorded into retained earnings at the beginning of the period or other comprehensive income. See "II. Summary of significant accounting policies and accounting estimates – 37. Effect of significant changes in accounting policies" in "Section XI Financial Report" for relevant impact.

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

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 with the last year

Applicable Not Applicable

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

Board of Directors of Ping An Bank Co., Ltd.

16 August 2018