

Building a Winning Franchise in China's Fast Developing Financial Sector

- A Case of Pursuing Early Opportunities and Managing Rapid Change

Louis Cheung

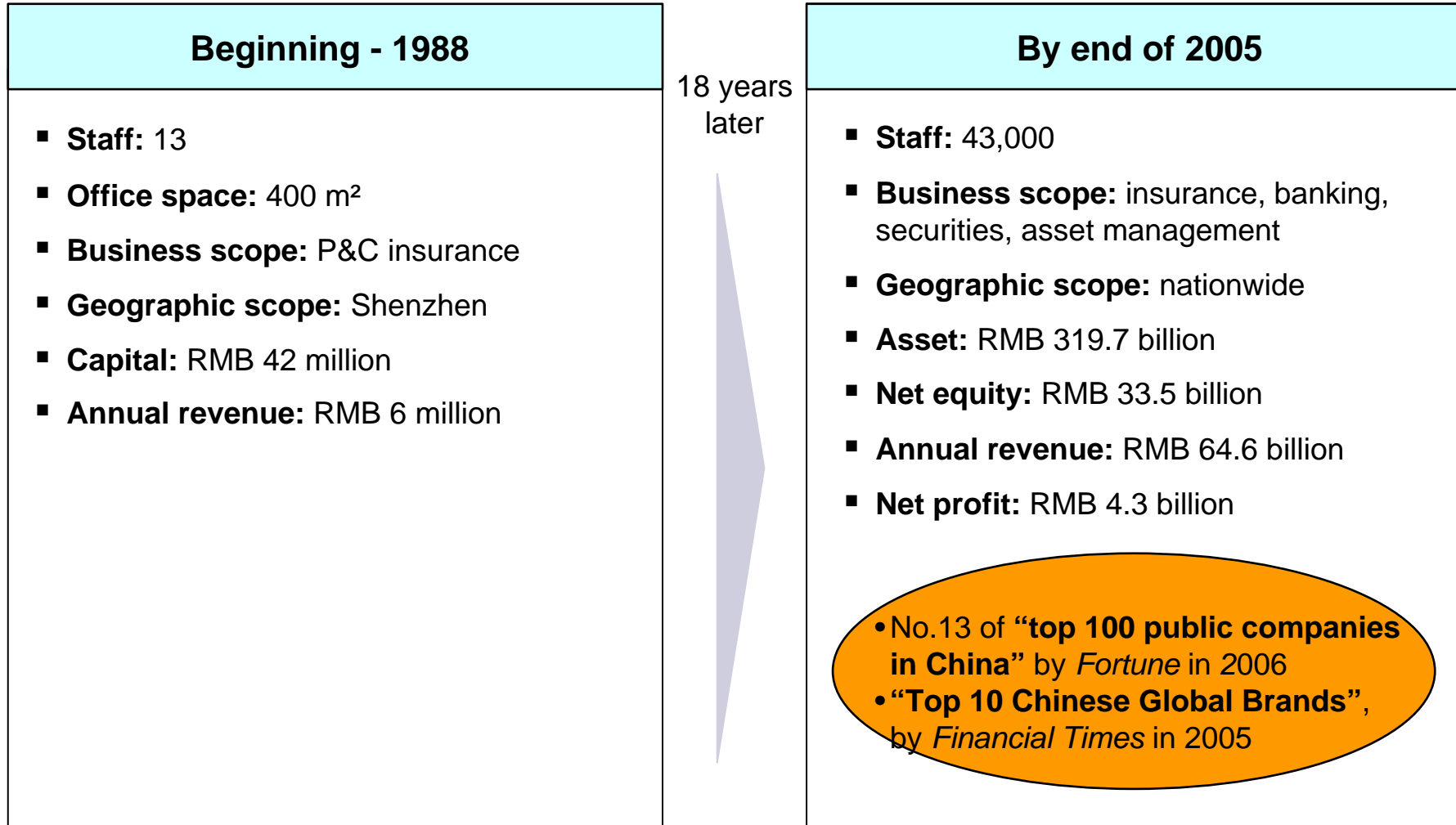
Ping An Insurance (Group) Company of China

November 24th, 2006

Discussion

- **Since 1988, Ping An has established a strong insurance franchise as well as an integrated financial services platform in China**
- **Ping An's 18-year achievement in the Chinese financial sector is a strong case of pursuing early opportunities and managing rapid change successfully**
- **Ping An looks well positioned for capturing major growth opportunities of the next decade in a more deregulated and competitive market**

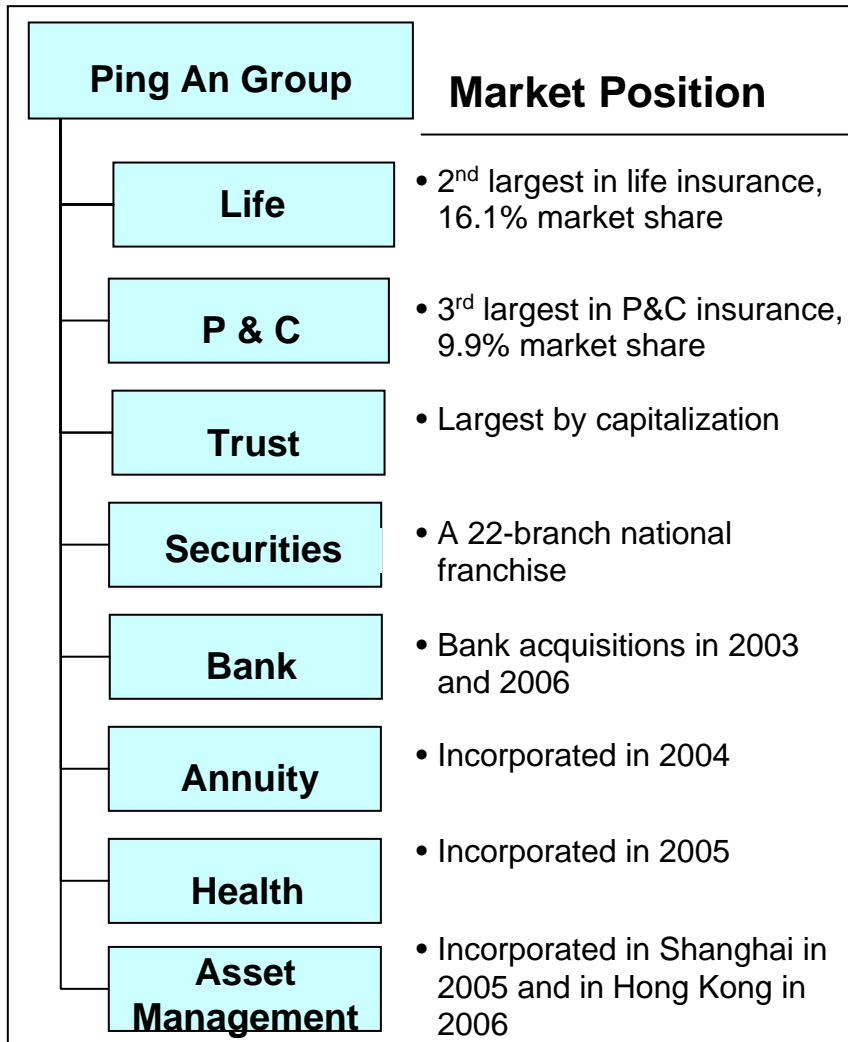
Fast Growth from a Humble Beginning



A Strong Franchise and Highly Competitive Market Position

Integrated financial services with insurance as core ...

... and significant competitive advantages



- **Large customer base**
Over 38 million existing customers: significant potential for cross-selling of multiple financial products
- **Strong brand & customer loyalty**
Consistently ranked top insurance brand, with high customer satisfaction and repeated sales
- **Extensive distribution network**
Over 200,000 sales people and 4,000 sales offices, plus multiple direct and third-party channels
- **Integrated service platform**
Multi-product, multi-channel service capabilities integrated through a centralized IT platform

An Extensive Nationwide Distribution Network

Broad nationwide presence



● Regional Office

Extensive distribution network

Sales Outlets

- 34 life insurance and 39 P&C insurance branches
- 2,200 life insurance and over 1,000 P&C insurance sub-branches

Individual

- Over 200,000 individual life insurance sales agents
- More than 27,000 bancassurance outlets

Corporate

- Approximately 1,600 group life and 7,700 P&C insurance sales representatives

Intermediary

- Over 6,000 insurance agencies and brokers for P&C business

Alternative

- PA18 Internet financial portal
- National 24x7 call center

High Stock Market Valuation among Major Global Insurers

Major global insurers

As on: 2006/7/24	Market Cap. (USD billion)	P/E	P/B
Dow Jones Index	3647.2	19.7	3.0
Hang Seng Index	681.5	12.7	2.0
H share index	204.5	13.7	2.4
Ping An	19.5	58.3	6.2
AIG	153.7	15.5	1.7
ING	67.2	9.0	1.8
Allianz AG	48.5	9.5	1.2
AXA	52.8	11.5	1.9
Met Life Inc.	39.8	11.5	1.5
Assicurazioni Generali	35.6	18.3	2.5
Zurich Fin. Ser.	37.7	9.5	1.4
Manulife Fin.	35.8	17.5	2.4
Prudential Plc	21.4	17.8	2.6

- Listed as H shares on Hong Kong Stock Exchange in June 2004
- A constituent stock of the MSCI China Index and Hang Seng China Enterprise Index

Source: "Insurance Capital Market Weekly" by CICC on July 24, 2006, P/E is based on the last four seasons average EPS

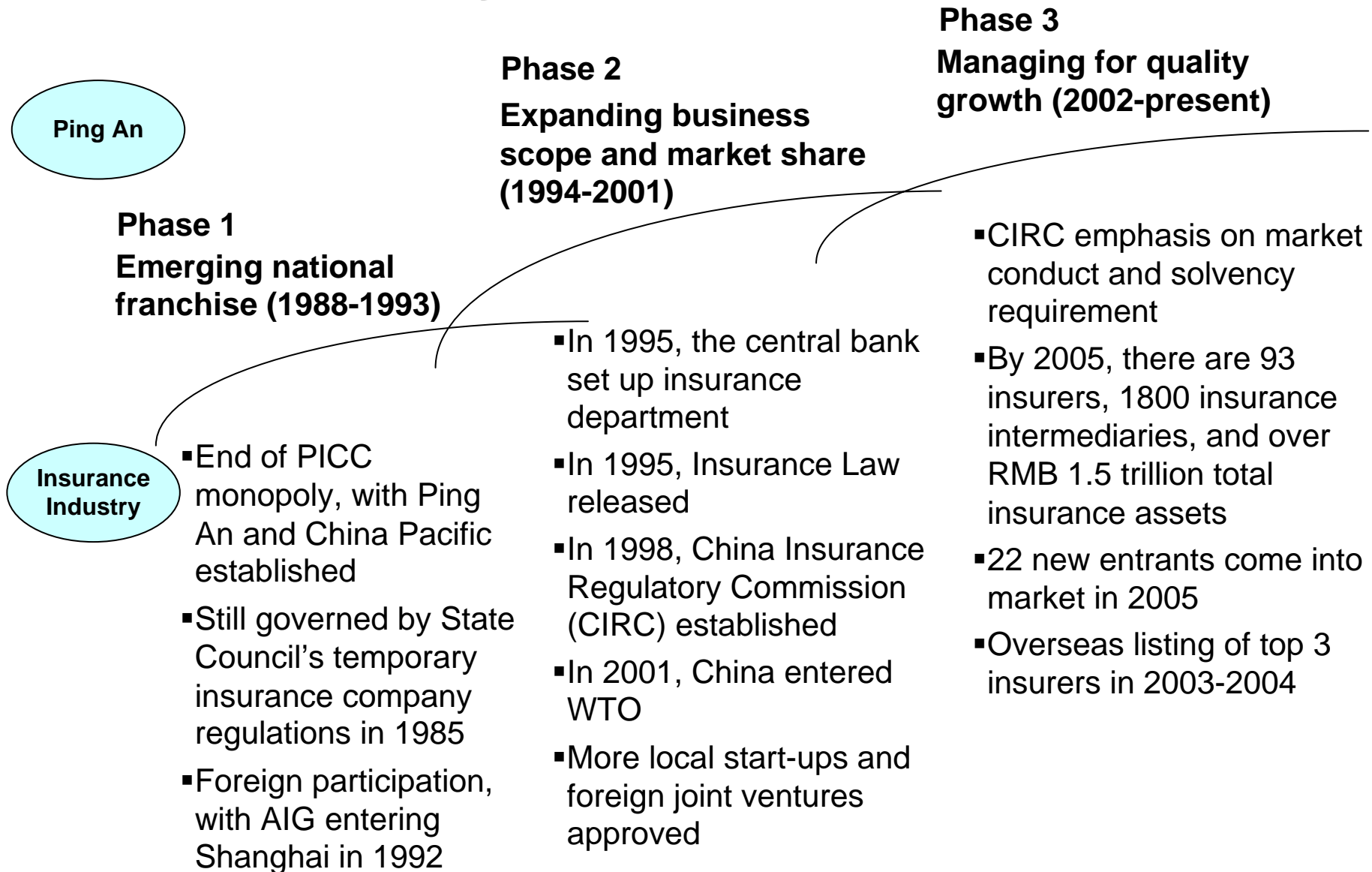
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Ping An has Witnessed Evolution of the Chinese Insurance Industry



Phase 1: Emerging National Franchise

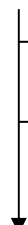
Major opportunities

- China started economic reform in 1978, stimulating insurance demand over time
- Very limited competition, with only 4 domestic insurers plus AIA Shanghai branch by the end of 1993
- Total insurance premium grew 5 times (35% CAGR) from 1988 to 1993

Management focus

- Expanded operations beyond Shenzhen in 1988, and became fully nationwide by 1992
- Got exposure to international practices through Hong Kong subsidiary from 1992
- Recruited top talent from financial and other industries through attractive compensation schemes

Major achievements between 1988-1993

- 
- 1988
 - Set up first branch in Hainan, started to expand business beyond Shenzhen
 - 1993
 - Expanded capital base, and consolidated shareholder structure (from branch joint ventures to unified corporate shareholding) to facilitate growth
 - With 38 branches established, well positioned for competing in the national market

Phase 2: Expanding Business Scope and Market Share

Major opportunities	Management focus
<ul style="list-style-type: none"> ▪ A brand new life insurance market in making, especially after AIA introduced life agency system in Shanghai from 1992 ▪ Foreign entrants still restricted to regional JVs ▪ Relatively weak local insurers behind the big three ▪ Huge market potential unlocked through product innovation 	<ul style="list-style-type: none"> ▪ Launched life business, and accumulated new individual customers quickly ▪ Introduced foreign strategic investors to expand capital base and strengthen corporate governance ▪ Brought in expatriates and foreign practices ▪ Acquired new licenses to shape multiple financial services platform beyond the insurance core



Major achievements between 1994-2001	
<p>1994</p> <p>1997</p> <p>2001</p>	<ul style="list-style-type: none"> ▪ First domestic insurer to have foreign shareholders and engage international auditor and consulting actuary ▪ First domestic company to implement the individual life agency system, with huge initial success in urban coastal market ▪ Started a series of high-impact change programs with McKinsey management consulting support and dedicated internal reform center ▪ Successfully transplanted international experience through collaboration with Dai-ichi Life, DKV, Lincoln National, Kuo Hua Life, DBS Vickers, etc. ▪ Very broad product range in place to cater for fast evolving customer needs

Phase 3: Managing for Quality Growth

Major opportunities	Management focus
<ul style="list-style-type: none"> ▪ Sustained economic growth, with rising household income and accumulated wealth ▪ More business friendly regulatory environment ▪ Fast expansion of insurance market with new entrants, new products, and new distribution channels ▪ Expanded investment channels for insurance funds 	<ul style="list-style-type: none"> ▪ Brought in major strategic investor to expand capital base, and prepared for overseas listing ▪ Pursued new banking and asset management opportunities ▪ Streamlined operations to enhance profitability ▪ Expanded expatriate team to cope with growth and rapid change simultaneously



Major achievements between 2002-present	
2002	<ul style="list-style-type: none"> ▪ HSBC strategic investment of US\$600 million for 10% equity stake, nearly doubling the equity base
2004	<ul style="list-style-type: none"> ▪ Listed on HKSE, gained international recognition among major global insurers ▪ Successfully completed business portfolio restructuring and sales force reform ahead of listing ▪ Executed new acquisitions and incorporated new business vehicles
2006	<ul style="list-style-type: none"> ▪ Announced acquisition of Shenzhen Commercial Bank ▪ Nation-wide back-office processing centre in Shanghai commenced operation

Living Up to New Challenges in Different Stages



Management Challenges

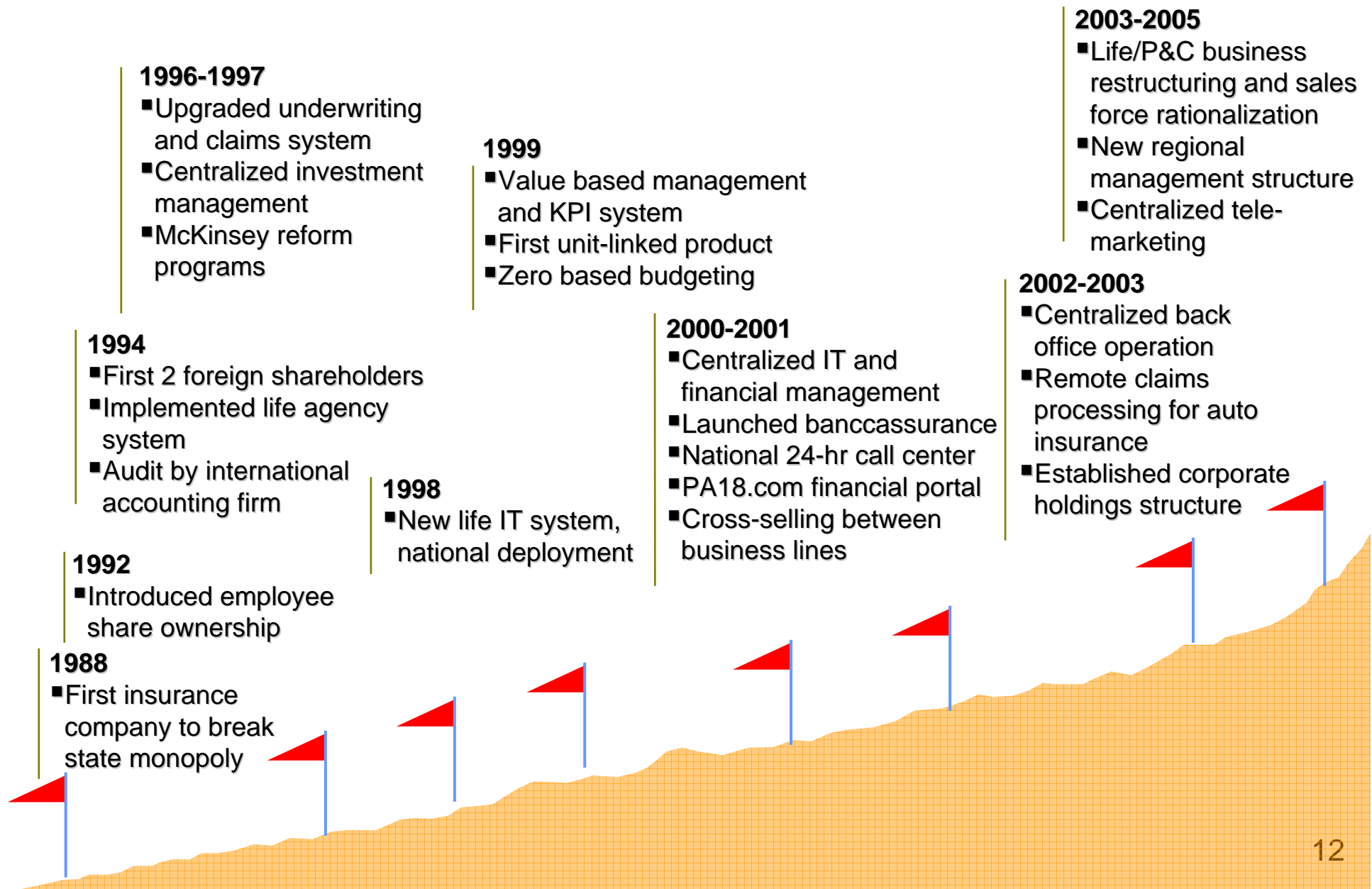
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|---|---|---|
| <ul style="list-style-type: none"> ▪ Building a national franchise well ahead of competition, by opening new branches quickly enough ▪ Attracting talent on a national scale to keep in line with aggressive growth | <ul style="list-style-type: none"> ▪ Surviving substantial negative spread in the aftermath of falling interest rates* over 1996-1999 ▪ Local skill base requiring major upgrade to keep up with business needs | <ul style="list-style-type: none"> ▪ Intensifying local and foreign competition in major cities ▪ Declining margins in fastest growing market segments ▪ Expanding cost base, with new subscale branches ▪ Vast geographic spread and complex product portfolio |
|---|---|---|

Key Strategic Decisions

- | | | |
|---|--|---|
| <ul style="list-style-type: none"> ▪ Attracted existing talent from financial industry by flexible compensation schemes ▪ Motivated many young, ambitious managers to open new branches and attack new markets ▪ Introduced employee share ownership scheme as an early Shenzhen pilot | <ul style="list-style-type: none"> ▪ Pursued aggressive growth of new, profitable business to offset old portfolio losses ▪ Introduced senior expatriates to strengthen management and upgrade skill set ▪ Rallied international help to drive large-scale change initiatives | <ul style="list-style-type: none"> ▪ Restructured business portfolio towards higher margin products ▪ Rationalized sales force to upgrade productivity ▪ Centralized IT and back-office operations ▪ Tightened internal control and strengthened auditing |
|---|--|---|

* 1-year deposit rate was lowered 7 times from 9.18% on May 11, 1996 to 2.25% on June 10, 1999

Sustained Innovations in Fast Developing Market



Management Combined Deep Local Knowledge with Extensive International Experience

Name	Current position	Previous experience	Starting year
MA Mingzhe	■ Chairman & founding CEO	Deputy Manager of China Merchants Shekou Industrial Zone Social Security Company	1988
CHEUNG Chi Yan Louis	■ Executive Director, Chief Operating Officer, Chief Financial Officer	Global partner of McKinsey & Company	2000
SUN Jianyi	■ Executive Director, Executive Vice-President	Deputy GM of Wuhan Branch, People's Insurance Company of China	1990
KU Min-shen	■ Chief HR Officer	Human Resources Director of Unilever HPC China	2001
LEUNG Ka Kui Dominic	■ Chief Insurance Business Officer	Managing Director of Prudential Greater China	2004
Richard JACKSON	■ Chief Finance Business Officer	Country Manager and Consumer Business Head of Citibank Korea	2005
YIP Lai Shing	■ Director of the investment committee, Chairman of Ping An Security	Chief Executive Officer of DBS Vickers (Hong Kong) Ltd.	2002

Strong Value-Driven Corporate Culture

Corporate Culture

Global standards, local advantages

(国际化标准, 本土化优势)

- Effective transplant of international best practices
- Built upon strong local advantages

Value driven

- Profitability as the key measurement of performance
- People management based on principles of competition, reward and motivation
- Accountability to shareholders, customers, employees and society

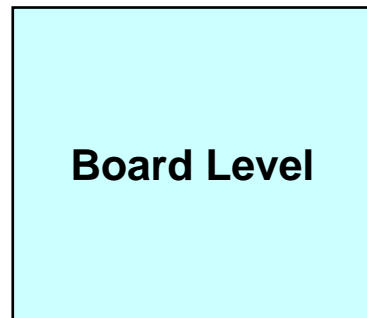


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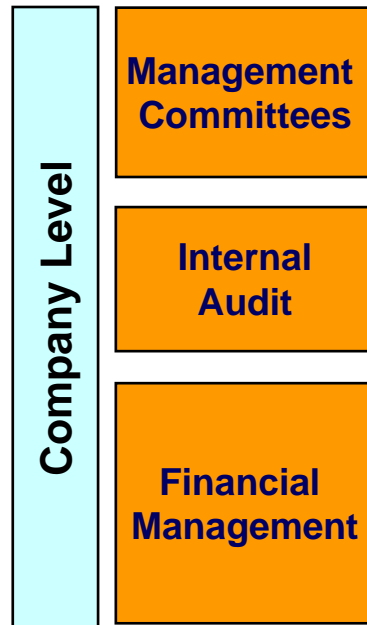
- Profit oriented
- Professionally managed, in line with international practices
- Innovative with strong change mindset
- Attract, develop, and retain best talent
- Visionary and strong leadership

Commitment to Sound Corporate Governance

Sound governance practices



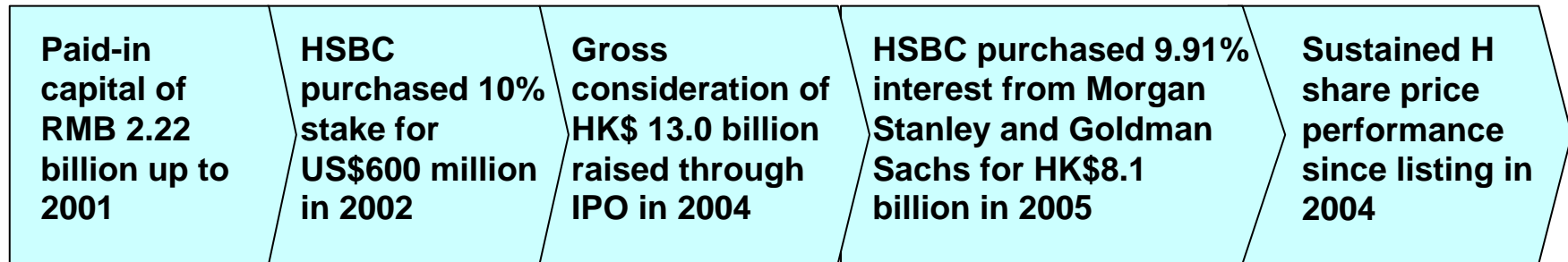
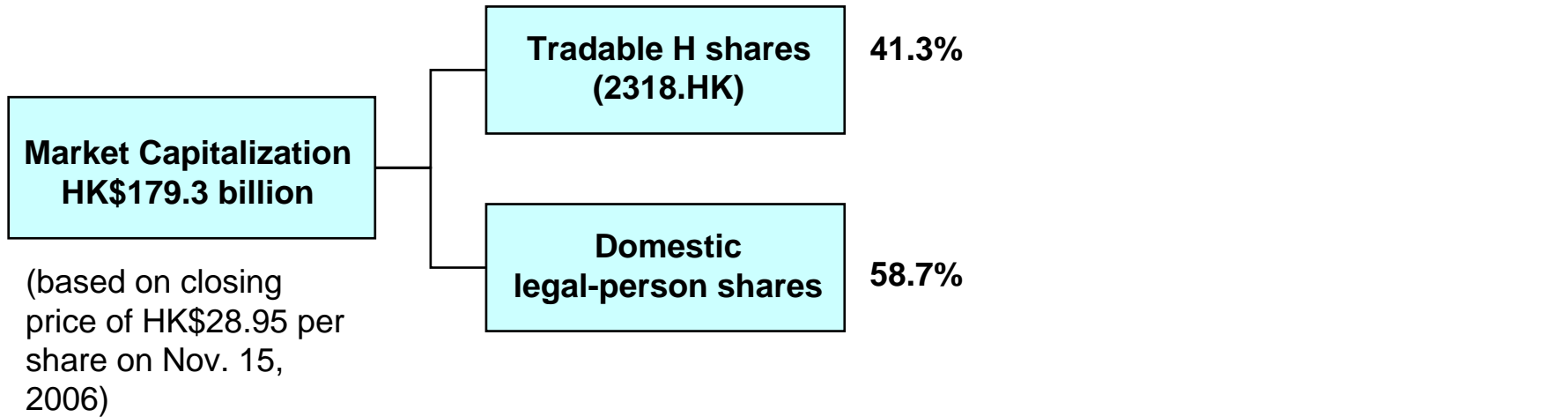
- Diversified shareholding structure
- Early participation of international shareholders from 1994
- 4 independent non-executive directors
- Audit, Remuneration, and Nomination Committees



- Investment, budget and risk management committees in place
- Chief Internal Auditor and 270-strong auditing team accountable to Board Chairman and Audit Committee
- Engaged international accounting firm and consulting actuary for over 10 years
- Dual PRC GAAP and IFRS financial reporting
- Centralized financial control
- Top-down budgeting and control process

- Ranked top financial company in China, and third in global emerging market insurers by *Euromoney's* 2005 Corporate Governance Poll
- Ranked top Asian insurance company and top company in China overall by *Euromoney's* 2006 Corporate Governance Poll

Substantial Value Creation for All-time Shareholders



- Sourced from domestic shareholders, Ping An employees, Morgan Stanley and Goldman Sachs
- Equity base nearly doubled
- Foreign shares converted into tradable H shares
- Over 10 times return for Morgan Stanley and Goldman Sachs since 1994
- Near 3 times return for IPO applicants in 2004

Such Achievement is Against the Backdrop of a Somewhat Bumpy Road for Entire Sector

Bumpy growth path for financial sector over last 2 decades

- Insurance**
 - Negative spread in life portfolio sold before 1999 with high guaranteed rates
 - Deteriorating margins for fast growing single-premium group life and bancassurance products from 2003
 - Losses in auto insurance (following pricing deregulation) and auto loan insurance from 2002
- Securities**
 - Losses in proprietary trading and managed accounts (with guarantees) after 2001
 - Collapse of well known securities houses hurting confidence
- Trust**
 - Substantial non-performing assets from poor investments
 - Government ordered closing of most poorly managed trust companies
- Banking**
 - Non-performing loans requiring substantial recapitalization
 - Multiple branch fraud cases

Ping An has its own lessons to remember

- Life insurance**
 - A negative embedded value of RMB 18 billion by end 2005 for in-force life business written prior June 1999
- P&C insurance**
 - Combined ratio shot up to 117% in 2001
- Securities**
 - RMB 589 million losses during 2001-2002 market downturn
- Trust**
 - Extra provision for non-performing assets following acquisition in 1996

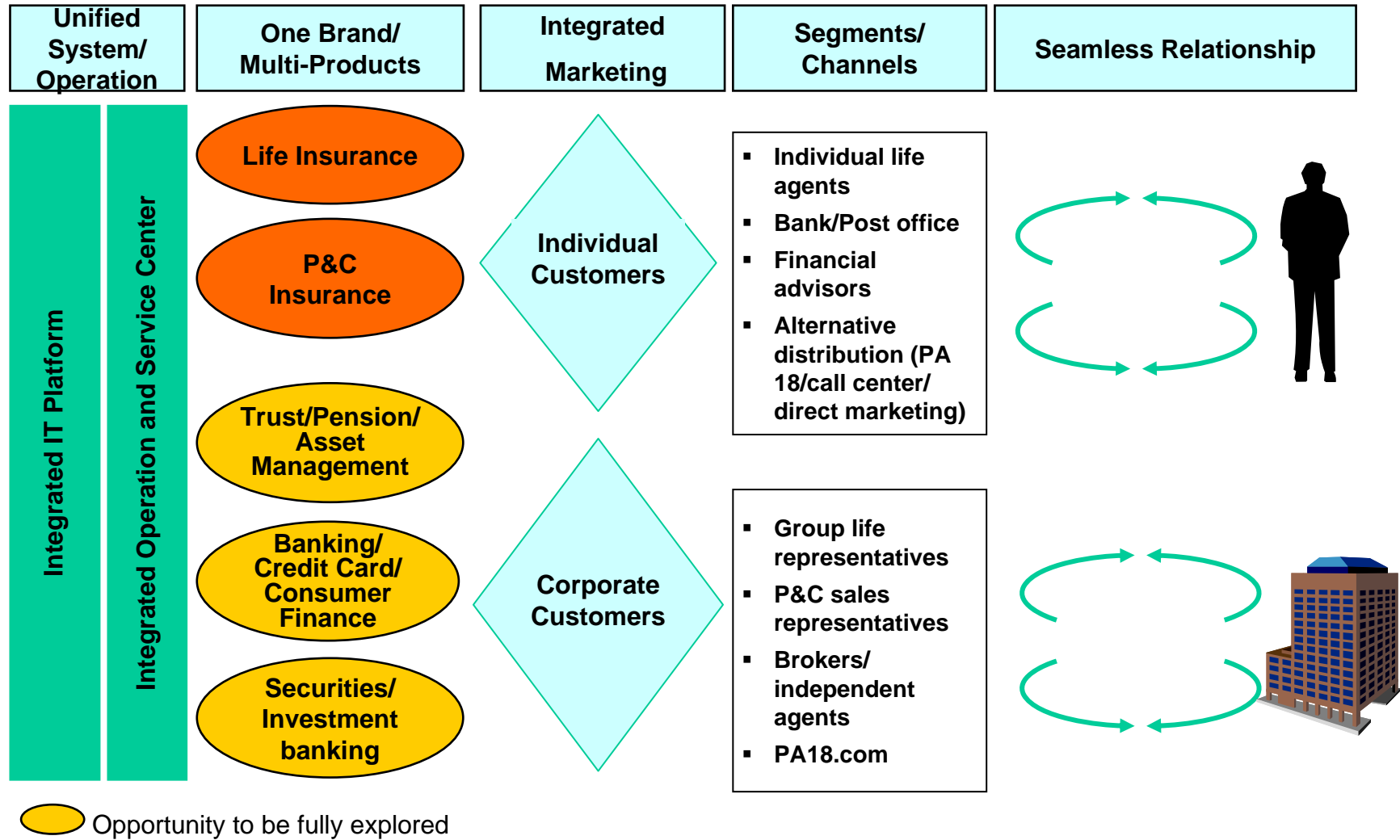
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Many Favorable Factors for Financial Sector Growth over Next Decade

Underlying strength of Chinese economy	Regulatory Reform	Globalization
<ul style="list-style-type: none">▪ Economy largely expected to sustain high, steady growth rates▪ Rising income and fast wealth accumulation, especially at the high end and in coastal cities▪ Preparation for rapid aging of population after 10-15 years drives demand for more financial products and services	<ul style="list-style-type: none">▪ The State Council issued “Ten Guidelines on the Reform and Development of the Insurance Industry”▪ Welfare, pension, and health care reforms favor commercial insurance participation▪ Securities reform encourages a more healthy capital market▪ Banking reform and ongoing restructuring/privatization open up more commercial opportunities	<ul style="list-style-type: none">▪ Increasing foreign participation post WTO brings innovation and professional discipline to financial market▪ Increasing scope for both overseas investment in China, and Chinese investment (including insurance funds) overseas▪ Skill and system upgrade made easy


Key is to Move Towards a Customer-Centric Structure



To Realize Our Vision and Aspirations

Ping An Mission Statement

- Become one of the-best-in-class integrated financial services providers in the world with a core insurance franchise
- Consistently deliver stable and healthy profit growth and returns



Ping An Strategy

- Create value for shareholders by riding the rapid wave of growth in the financial services in China, focusing on faster growing geographies and segments, and leveraging on our increasing economies of scale, skill and scope to capture as much share of wallet as possible, as fast and as efficiently as possible
- Create value for our customers by providing bundles of products and services in a way that provides better proposition to the customers, than if the products were purchased separately from us or from elsewhere
- To execute this strategy building on our core insurance strengths, as one company, with one culture, one brand, and one system, leveraging global best practices
- Maintain strong capital and financial position

Thank You !