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中国平安保险(集团)股份有限公司
Ping An Insurance (Group) Company of China, Ltd.
(A joint stock limited company incorporated in the People's Republic of China with limited liability)
(Stock Code: 2318)

OVERSEAS REGULATORY ANNOUNCEMENT

This announcement is made pursuant to Rule 13.10B of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

“The Announcement of Ping An Insurance (Group) Company of China, Ltd. regarding the Disclosure of Relevant Reports on Ping An Corporate Day – Core Finance”, which is published by Ping An Insurance (Group) Company of China, Ltd. on the website of Shanghai Stock Exchange, is reproduced herein for your reference.

By order of the Board
Yao Jun
Company Secretary

Shenzhen, PRC, October 11, 2018

As at the date of this announcement, the Executive Directors of the Company are Ma Mingzhe, Sun Jianyi, Ren Huichuan, Yao Jason Bo, Lee Yuansiong and Cai Fangfang; the Non-executive Directors are Soopakij Chearavanont, Yang Xiaoping, Liu Chong and Wang Yongjian; the Independent Non-executive Directors are Yip Dicky Peter, Wong Oscar Sai Hung, Sun Dongdong, Ge Ming and Ouyang Hui.

**THE ANNOUNCEMENT OF
PING AN INSURANCE (GROUP) COMPANY OF CHINA, LTD.
REGARDING THE DISCLOSURE OF RELEVANT REPORTS ON
PING AN CORPORATE DAY – CORE FINANCE**

The board of directors and all directors of Ping An Insurance (Group) Company of China, Ltd. (hereinafter referred to as the "**Company**") confirm that there are no false representations and misleading statements contained in, or material omissions in this announcement, and severally and jointly accept the responsibility for the truthfulness, accuracy and completeness of the contents of this announcement.

The Company will hold the “Ping An Corporate Day – Core Finance” event on Friday, October 12, 2018, in which *Ping An's Value Inside Out (III)*, *Ping An Bank Transformation*, *Investment Risk Management* and *Technology Empowers PAL* will be reported.

Please refer to the attachments of this announcement as disclosed by the Company on the website of Shanghai Stock Exchange (www.sse.com.cn) on the same day for the details of the above reports.

Attachments of this announcement on the website:

1. Ping An's Value Inside Out (III)
2. Ping An Bank Transformation
3. Investment Risk Management
4. Technology Empowers PAL

The Board of Directors
Ping An Insurance (Group) Company of China, Ltd.
October 11, 2018

Ping An's Value Inside Out

(III)

Jason Yao

**Group Executive Vice President & Chief Financial Officer
& Chief Actuary**

2018.10.12 Shenzhen, China

Important Notes

Cautionary Statements Regarding Forward-Looking Statement

To the extent any statements made in this presentation containing information that is not historical are essentially forward-looking. These forward-looking statements include but are not limited to projections, targets, estimates and business plans that the Company expects or anticipates will or may occur in the future. These forward-looking statements are subject to known and unknown risks and uncertainties that may be general or specific. Certain statements, such as those including the words or phrases "potential", "estimates", "expects", "anticipates", "objective", "intends", "plans", "believes", "will", "may", "should", and similar expressions or variations on such expressions may be considered forward-looking statements.

Readers should be cautioned that a variety of factors, many of which may be beyond the Company's control, affect the performance, operations, and results of the Company, and could cause actual results to differ materially from the expectations expressed in any of the Company's forward-looking statements. These factors include but are not limited to exchange rate fluctuations, market shares, competition, environmental risks, changes in legal, financial and regulatory frameworks, international economic and financial market conditions, and other risks and factors beyond our control. These and other factors should be considered carefully, and readers should not place undue reliance on the Company's forward-looking statements. In addition, the Company undertakes no obligation to publicly update or revise any forward-looking statement that is contained in this presentation as a result of new information, future events, or otherwise. None of the Company, or any of its employees or affiliates is responsible for, or is making, any representation concerning the future performance of the Company.

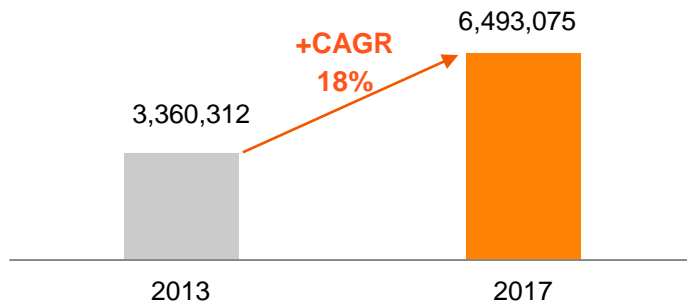
Specification of Disclosure

Value of new business stated in this presentation is of life and health insurance business unless otherwise specified, which is comprised of insurance business from Ping An Life, Ping An Annuity and Ping An Health.

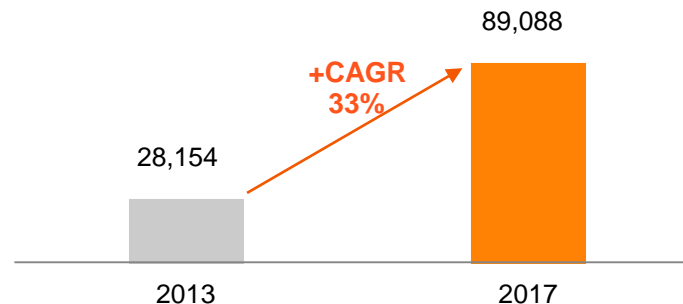
Growth rates disclosed in the charts and tables of this presentation are annual compound growth rates unless otherwise specified.

Ping An's Booming Business

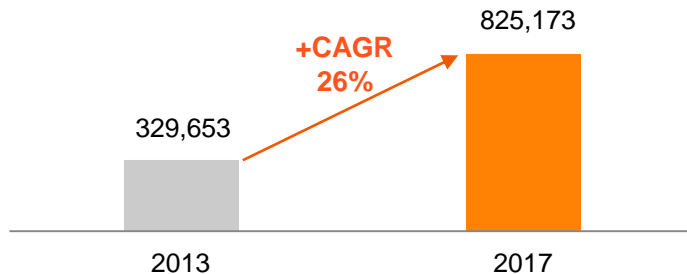
Total Assets



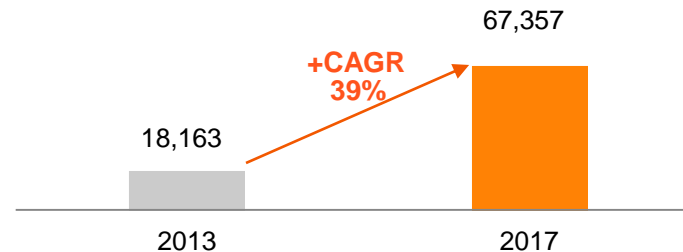
Net Profit Attributable to Shareholders of Parent Company



Embedded Value

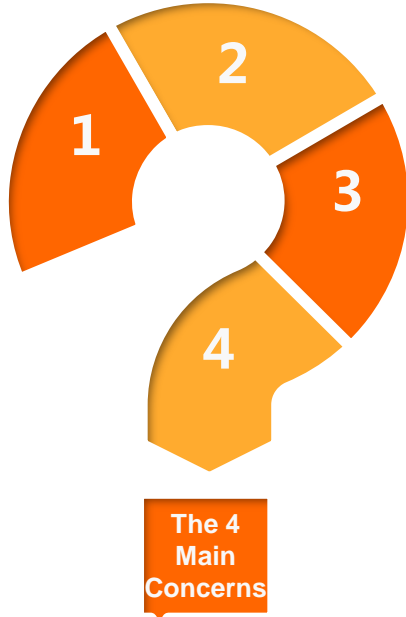


NBEV



Note: (1) EV and NBEV of 2013 are under Solvency I definition. Ping An has started to disclose EV and related data under C-ROSS definition as required by regulation.
(2) Source of data: Ping An's annual reports.

Recap on Previously Addressed Life Insurance Topics



1

Is insurance consumption upgrade sustainable?



Environmental Changes Encourage Upgrade

- ✓ Aging population and inflating medical costs
- ✓ Increasing income and insurance awareness
- ✓ Low insurance penetration and coverage

2

Is Ping An Life's steady growth sustainable during economic downturn?



Sustainable Future Profit

- ✓ Resilient solvency position
- ✓ Massive balance of residual margin
- ✓ Excellent business quality and protection focused
- ✓ Integrated financial and technology-empowered model

3

How to interpret residual margin?



Vital Source of Profit and Capital

- ✓ Balance and release of residual margin are vital parts of capital and profit
- ✓ RM and VIF are both PV of future profit with differences in discount rate, tax and cost of capital

4

Are EV assumptions prudent and reasonable?



Prudent Assumptions

- ✓ Prudent risk discount rate
- ✓ Account for long-term deterioration in morbidity rates
- ✓ Prudent assumptions adding value proven by sequential positive operating variance

Regulation Reforms Promote Disclosure Enhancement

Return to insurance nature and tightened regulation

Group	◆ IFRS9	• Implemented in Jan. 2018
	◆ Document 76	• Announced in Sep. 2016
Life	◆ Document 134	• Announced in Jun. 2017
	◆ Document 19	• Announced in Apr. 2018
P&C	◆ Reform on commercial auto insurance pricing	• Ongoing since 2015

Ping An proactively enhances disclosure

◆ Operating profit	• Remove short-term fluctuations to capture underling results and trend
◆ Source of profit	• Analysis of the sources of Life profit
◆ Movement of residual margin	• Disclose the drivers of residual margin changes
◆ Movement of available funds	• Disclose the drivers of available funds changes
◆ ROEV	• Reflects underlying EV growth

CONTENTS

1. How to Interpret Operating Profit

2. How to Interpret ROEV

3. Valuation Framework of Ping An

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1. How to Interpret Operating Profit

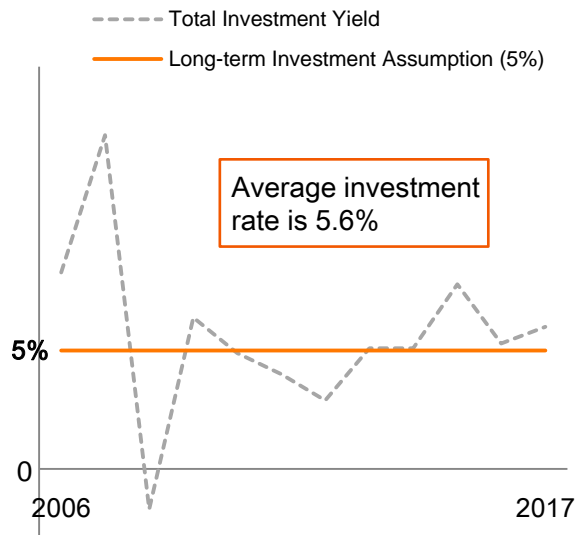
- Background of operating profit
- Source of earning of Life
- Movement of residual margin
- Profit drivers of non-life businesses

Operating Profit Provides a Clearer View of Underlying Results and Trends

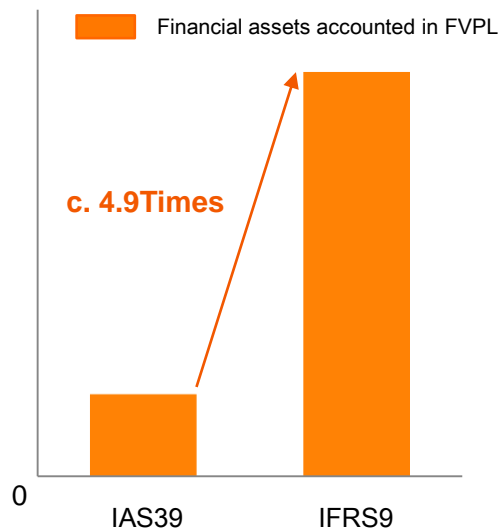
Operating Profit =

Net Profit - Short-term Investment Variance⁽¹⁾ - Impact of Discount Rate Change - One-off Material Non-operating Items

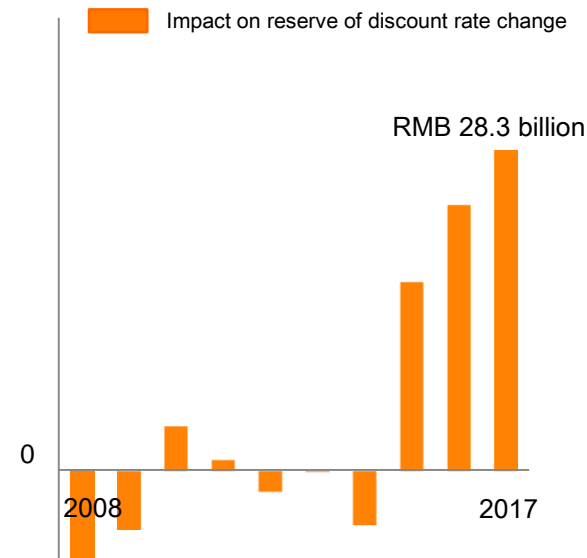
Hugh Investment Return Volatility



More Fluctuation under IFRS 9



Substantial Impact of Discount Rate Change



Note: (1) Short-term investment variance is the variance between actual investment return of L&H and the ultimate investment return assumption (5%), net of associated relevant impact on insurance and investment contract liability.

Investment Variance and Discount Rate Change Mostly Impact L&H

For the 12 months ended 31/12/2017 (in RMB Million)	Life & Health	P&C	Banking	Asset Management	Fintech & Healthtech	Other and elimination	Group
Net profit attributable to shareholders of the parent company	35,658	13,307	13,449	15,924	14,621	(3,871)	89,088
Minority interests	485	65	9,740	481	68	53	10,890
Net profit (A)	36,143	13,372	23,189	16,403	14,689	(3,818)	99,978
Excluding:							
Short-term investment variance (B)	4,532						4,532
Impact of discount rate change (C)	(21,213)						(21,213)
Impact of one-off material non-operating items (D)					10,850 ⁽¹⁾		10,850
Operating profit (E = A – B – C – D)	52,824	13,372	23,189	16,403	3,839	(3,818)	105,809
Operating profit attributable to shareholders of the parent company	52,128	13,307	13,449	15,924	3,771	(3,871)	94,708
Operating profit attributable to minority shareholders	696	65	9,740	481	68	53	11,101

Note: (1) The one-off material non-operating item in 2017 is referred to impact of the restructuring of Ping An Good Doctor.

(2) Figures may not match the calculation due to rounding.

Operating Profit of L&H is Mainly Driven by Release of Residual Margin and Operating Variance

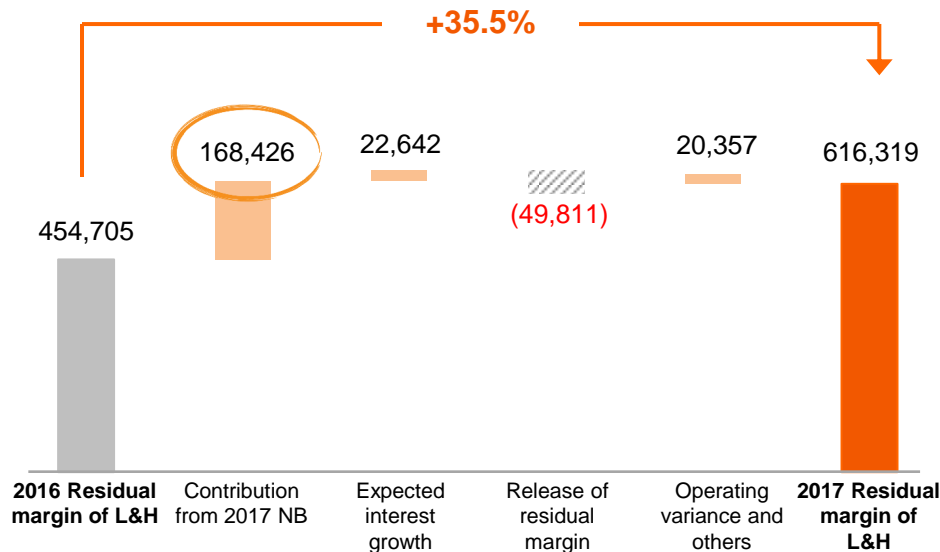
(in RMB Million)	2017	Portion(%)	2016	Portion(%)
Return on net worth	7,357	10.1%	5,648	10.5%
Spread income	5,637	7.7%	3,715	6.9%
Release of residual margin	49,811	68.3%	38,202	70.9%
Operating variance and others	10,108	13.9%	6,317	11.7%
Operating profit before tax	72,912	100.0%	53,882	100%
Income tax	(20,088)		(13,365)	
Operating profit after tax	52,824		40,518	

Note: Figures may not match the calculation due to rounding.

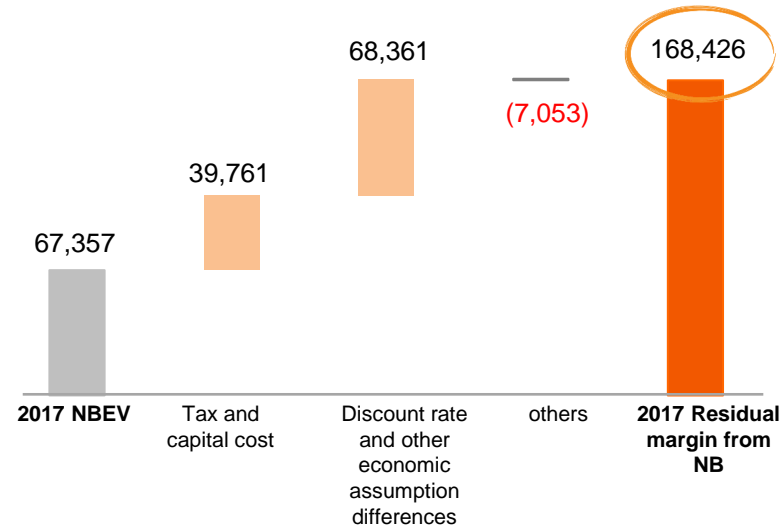
Residual Margin Growth is Driven by Quality New Business

(in RMB Million)

Movement of Residual Margin



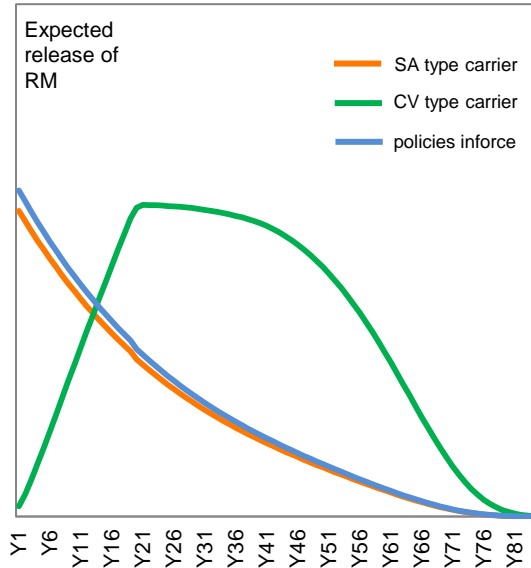
Reconciliation from NBEV to RM of NB



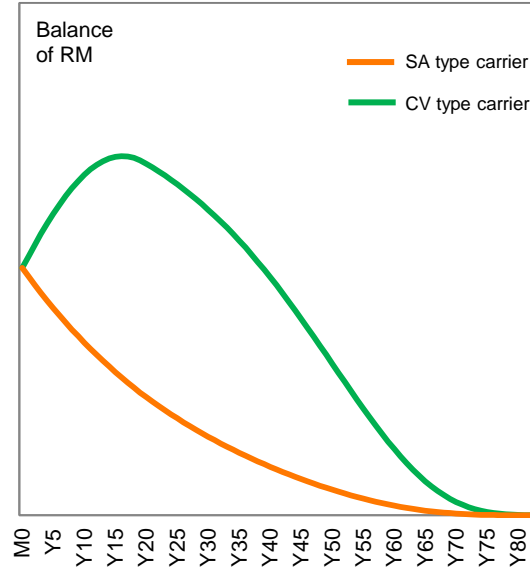
Note: Figures may not match the calculation due to rounding.

RM Release Pattern Varies by Carriers. High-value Business is Still Able to Maintain High RM Balance Even at High Rate of Release

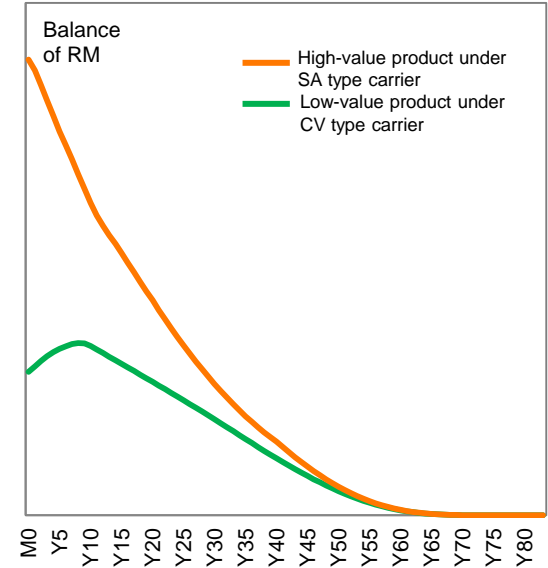
RM release pattern of SA type carrier is in line with pattern of # of policies change, which serves as carrier of most PA's products



For the same set of policies, the higher the rate of release, the lower the remaining balance.



High-value business is still able to maintain high RM balance even at high rate of release

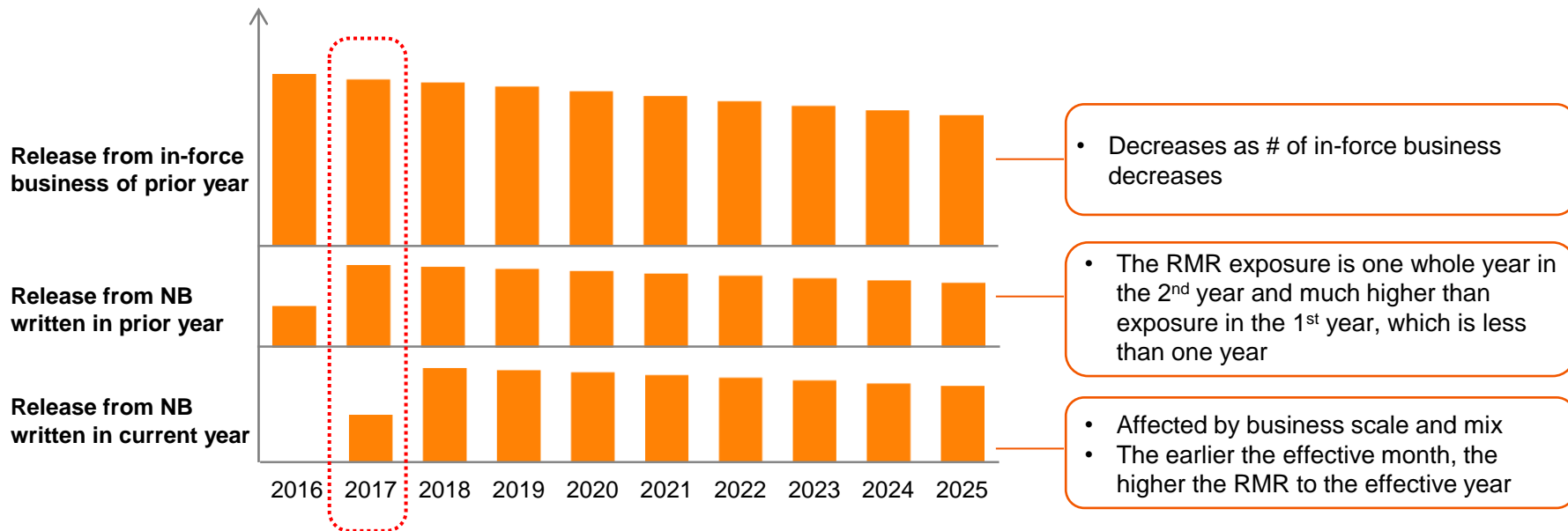


Note: SA = Sum-Assured; CV = Cash Value.

RM Release is Mostly Driven by In-force Business. New Business is Key to Future Growth

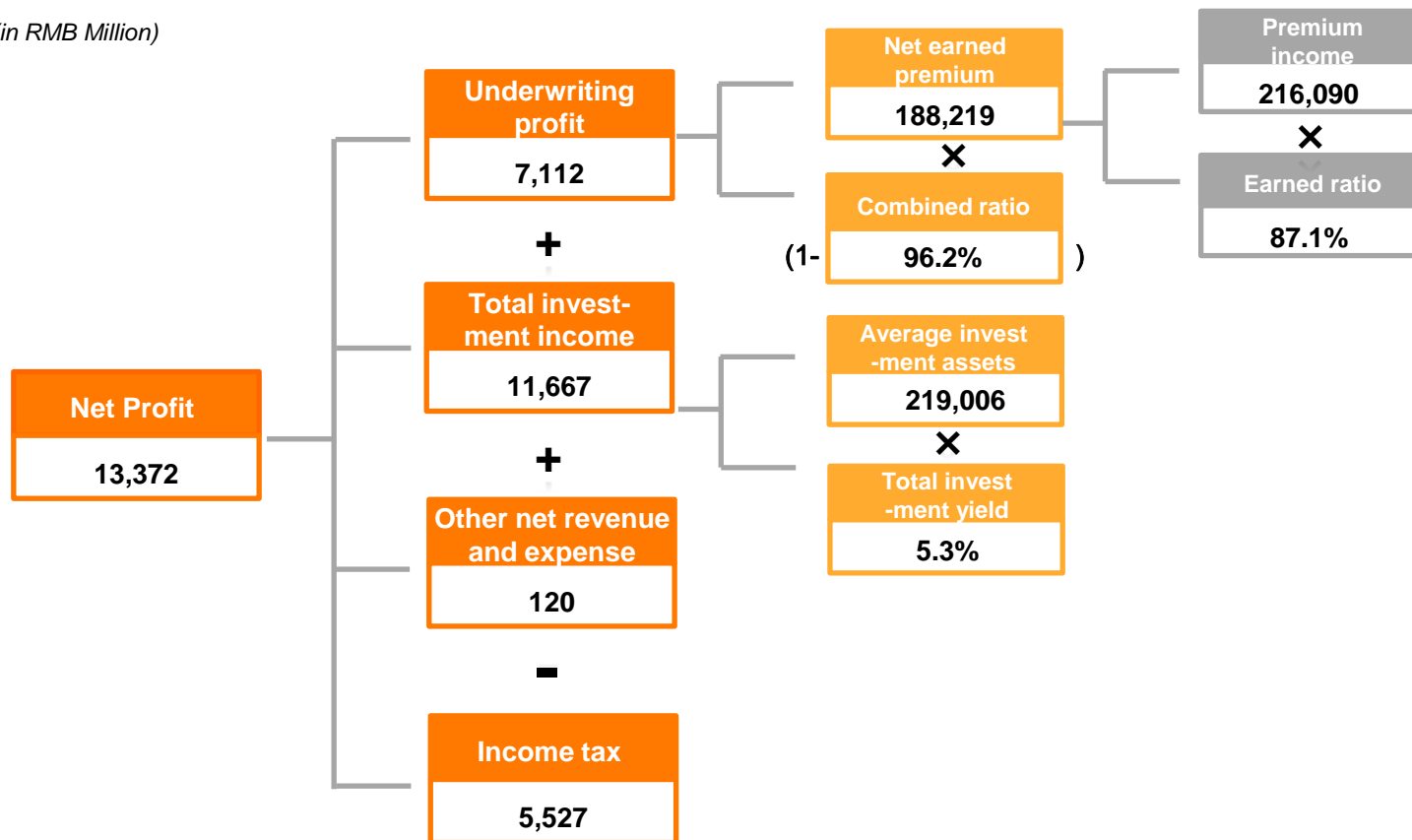
Residual Margin Release (RMR)

= RMR from in-force business of prior year + RMR from NB issued in prior year + RMR from NB issued in current year



Operating Profit Drivers of P&C Business

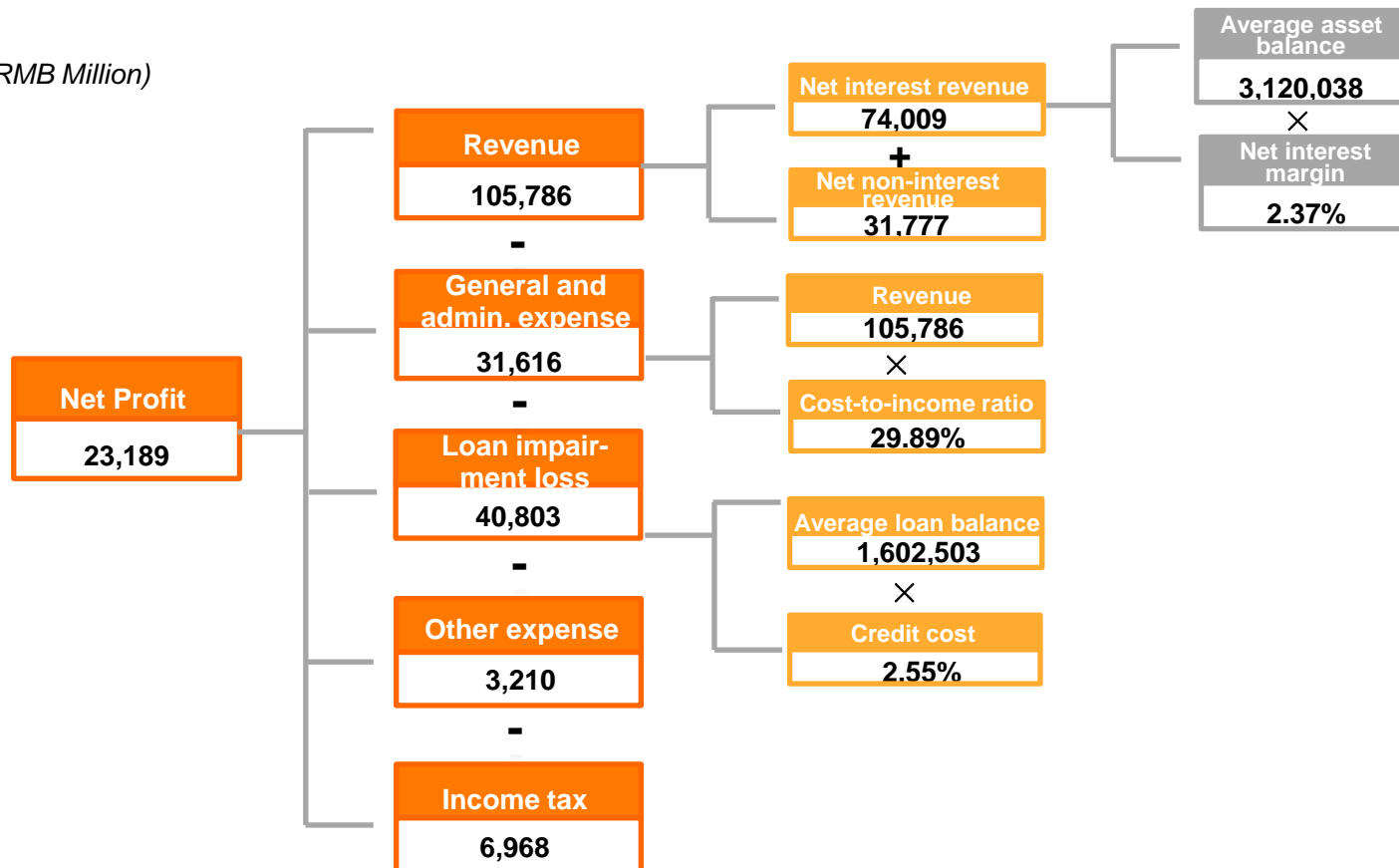
(in RMB Million)



Note: Figures may not match the calculation due to rounding.

Operating Profit Drivers of Banking Business

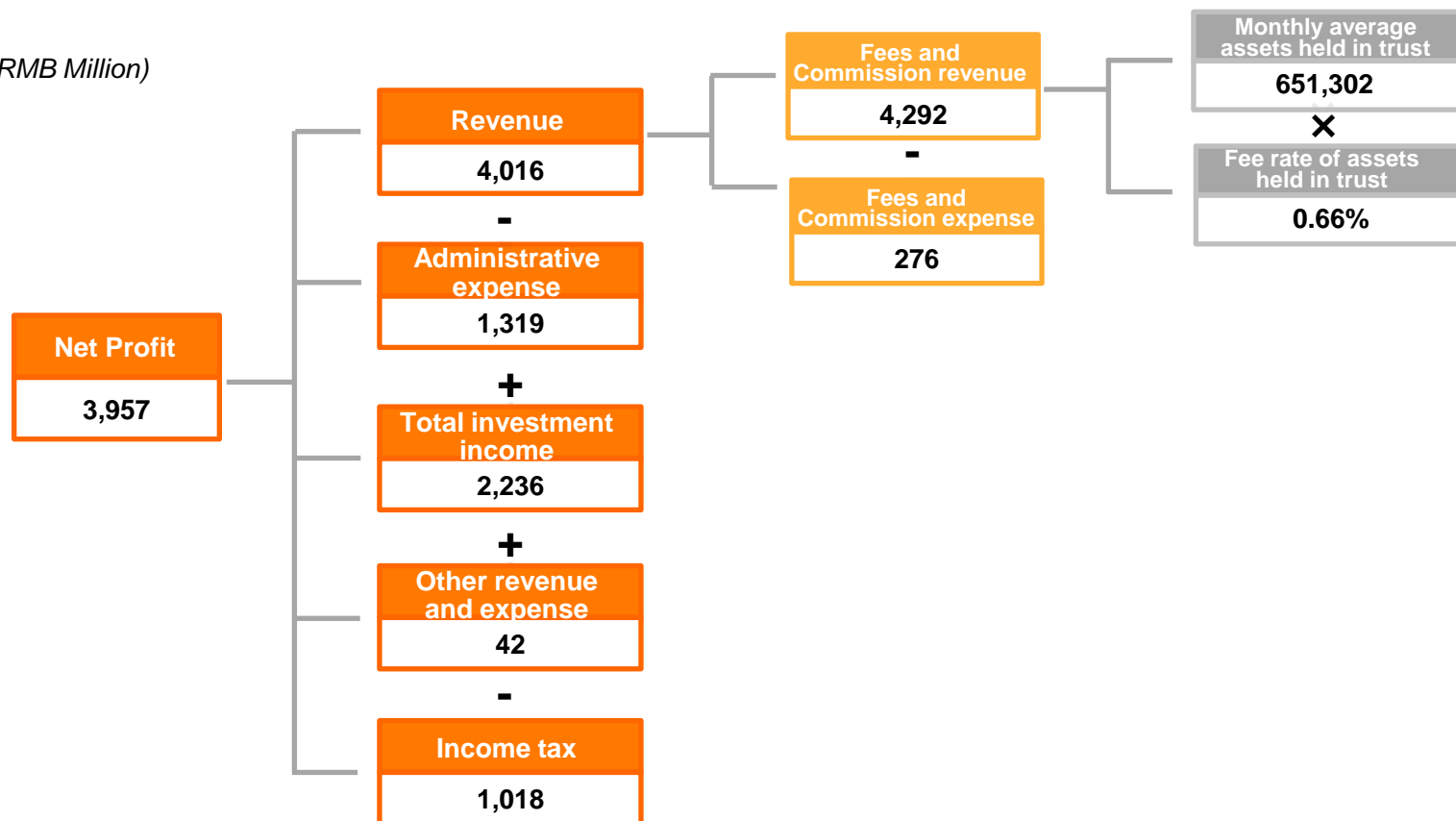
(in RMB Million)



Note: Figures may not match the calculation due to rounding.

Operating Profit Drivers of Trust Business

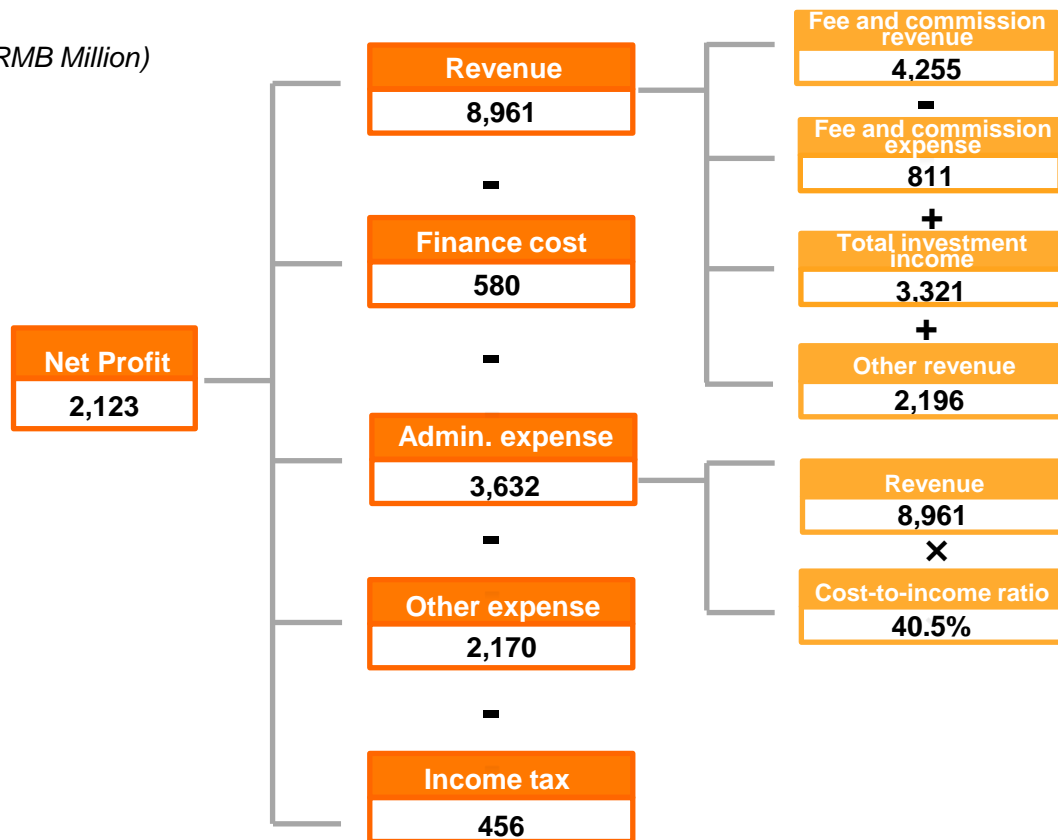
(in RMB Million)



Note: Figures may not match the calculation due to rounding.

Operating Profit Drivers of Securities Business

(in RMB Million)

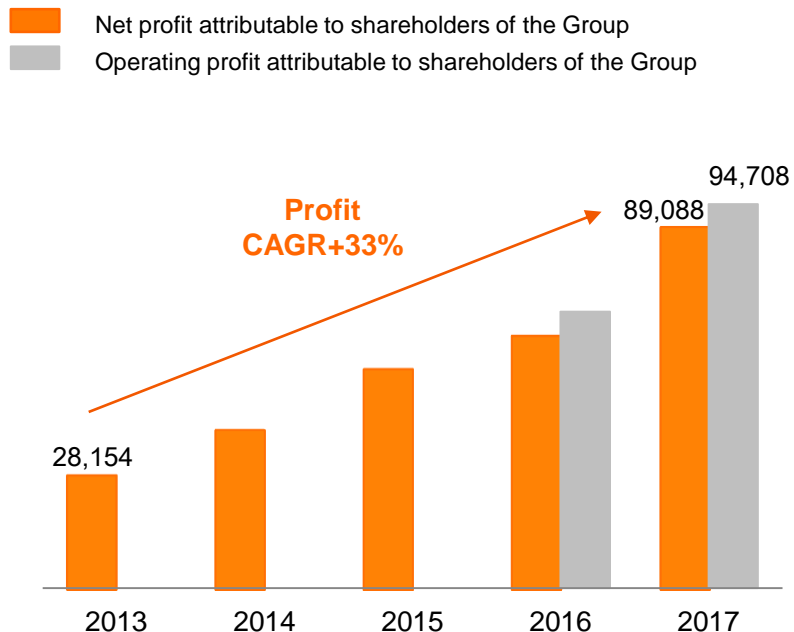


Note: Figures may not match the calculation due to rounding.

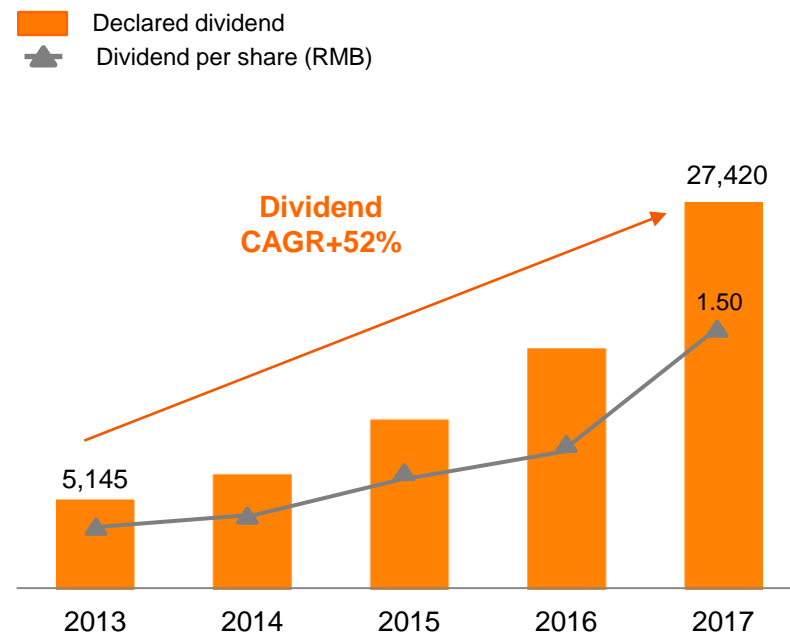
Dividend Increased with Profit Growth

(in RMB Million)

Profit Continued to Rise



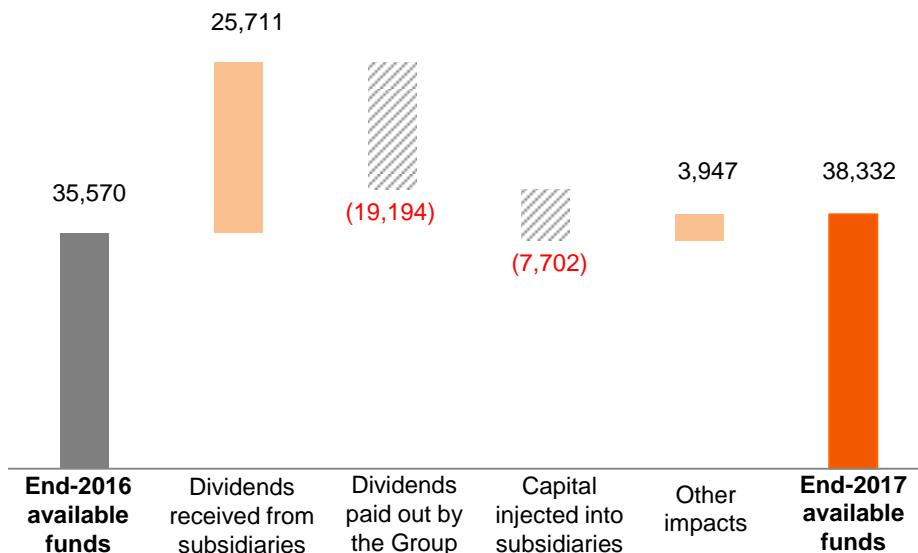
Dividend Increased with Profit Growth



Diversified Profit Source Supports Sustainable Dividend Growth

(in RMB Million)

Abundant Available Funds



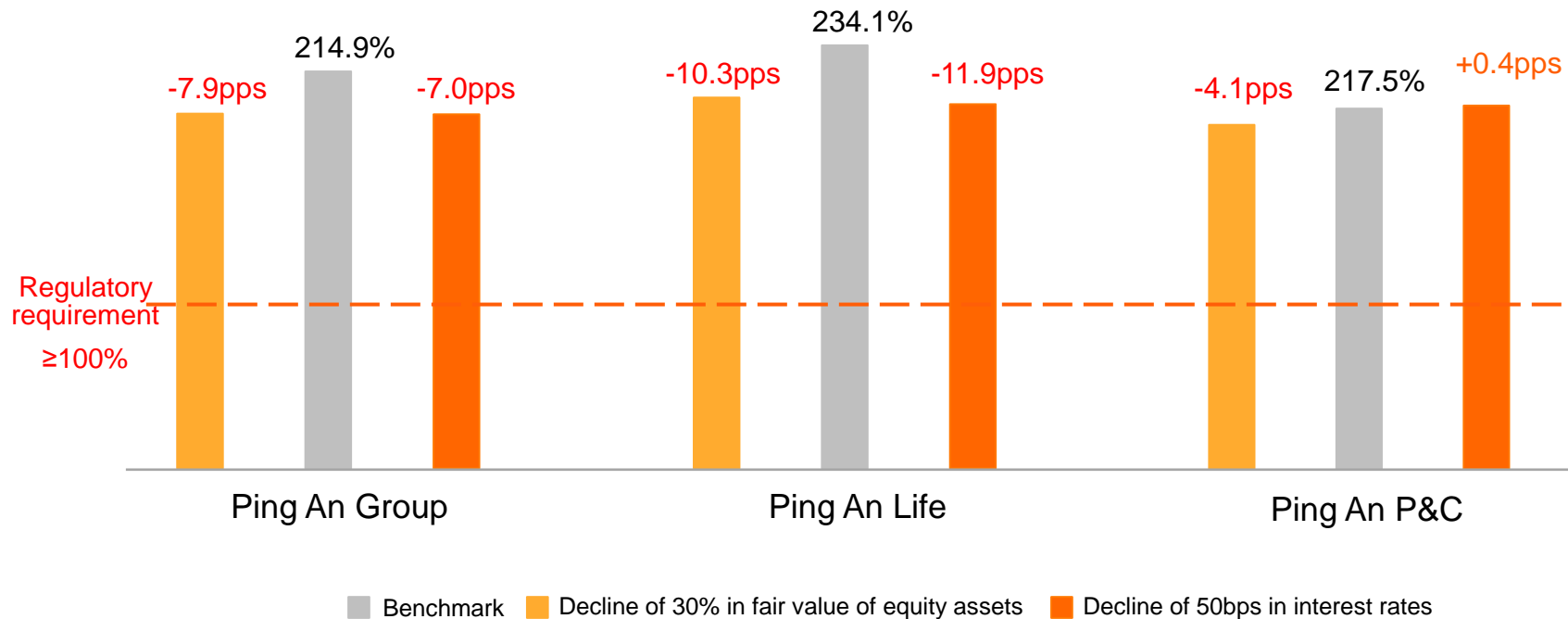
Diversified Profit Source

	2017	2016
L&H	55.0%	58.9%
P&C	14.1%	18.5%
Banking	14.2%	19.2%
Asset management	16.8%	13.8%
FinTech&HealthTech	4.0%	-4.8%
Other and elimination	-4.1%	-5.6%
Group	100.0%	100.0%

Note: (1) The available funds of the parent company includes bonds, equity securities, bank deposits and cash equivalents held by the parent company. The capital is invested in subsidiaries, used for daily operations, or paid out as dividends.

(2) Dividends received from subsidiaries include RMB 17,356 million from Ping An Life, RMB 3,030 million from Ping An Property & Casualty, RMB 1,345 million from Ping An Bank, and RMB 2,500 million from Ping An Trust.

Resilient Solvency Reduces Capital Constraints on Dividend



Recap

Stability

- Remove short-term fluctuation
- Reflect business results and trends



Operating Profit



Steady Dividend

- Dividend growth consistent with operating profit growth
- Diversified profit source and low solvency constraints

Predictability

- L&H profit growth is mainly driven by solid growth in RM release and operating variances
- Non-life businesses have clear drivers of growth

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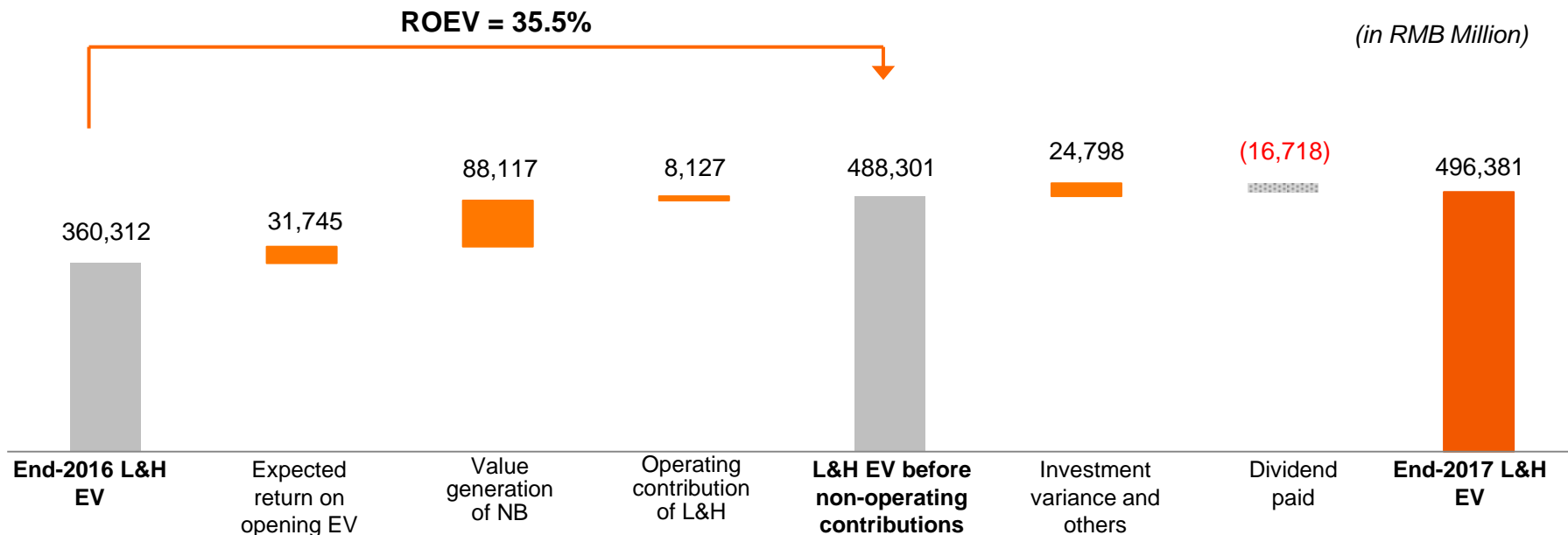
1. How to Interpret Operating Profit

2. How to Interpret ROEV

3. Valuation Framework of Ping An

ROEV Reflects Underlying EV Growth

- $\text{L\&H ROEV} = \text{L\&H EV Operating Profit} \div \text{Opening EV}$
- $\text{L\&H EV Operating Profit} = \text{Expected return on opening EV} + \text{Value generation of NB} + \text{Operating contribution of L\&H}$



Note: Operating contribution of L&H includes Operating assumption and model changes, as well as Operating variances and others.

L&H Achieved Superb ROEV in the Past Five Years

(in RMB Million)		2017	2013-2017 Average
Opening EV	[1]	360,312	
EV operating profit	[2]=[3+...+6]	127,989	
Expected return on opening EV	[3]	31,745	8.4%
Expected return on VIF = Opening VIF x RDR(11%)		25,340	6.8%
Expected return on ANA and etc.		6,405	1.7%
Value generation of NB	[4]	88,117	16.2%
Operating assumptions and model changes	[5]	(758)	-0.6%
Operating variance and others	[6]	8,886	0.7%
ROEV	[7]=[2]/[1]	35.5%	24.7%

Note: (1) Opening VIF is referred to the opening balance of value of in-force; RDR is referred to the risk discount rate.

(2) Figures may not match the calculation due to rounding.

Prudent Risk Discount Rate Led to High Expected Return

- Risk discount rate (RDR) should reflect the level of uncertainty in future profits
- Expected return is positively correlated to the level of RDR and VIF as % of EV

Year	Risk Discount Rate (RDR)	10-year CGB Yield	Risk Premium
2008	11.5%	2.9%	8.6%
2009	11.0%	3.8%	7.2%
2010	11.0%	4.0%	7.0%
2011	11.0%	3.5%	7.5%
2012	11.0%	3.6%	7.4%
2013	11.0%	4.6%	6.4%
2014	11.0%	3.7%	7.3%
2015	11.0%	2.9%	8.2%
2016	11.0%	3.0%	8.0%
2017	11.0%	3.9%	7.1%
10-year Average	-	-	7.5%

- ✓ **Excellent risk management:**
SARMRA ranks #2
- ✓ **High business quality:**
Low investment sensitivity and Interest Margin as % of NBEV
- ✓ **Low profit volatility vs peers:**
Ping An Group 11.3% < Listed peers 48.9%

Note: (1) Yields of 10-year CGB above are as at the end of each year;

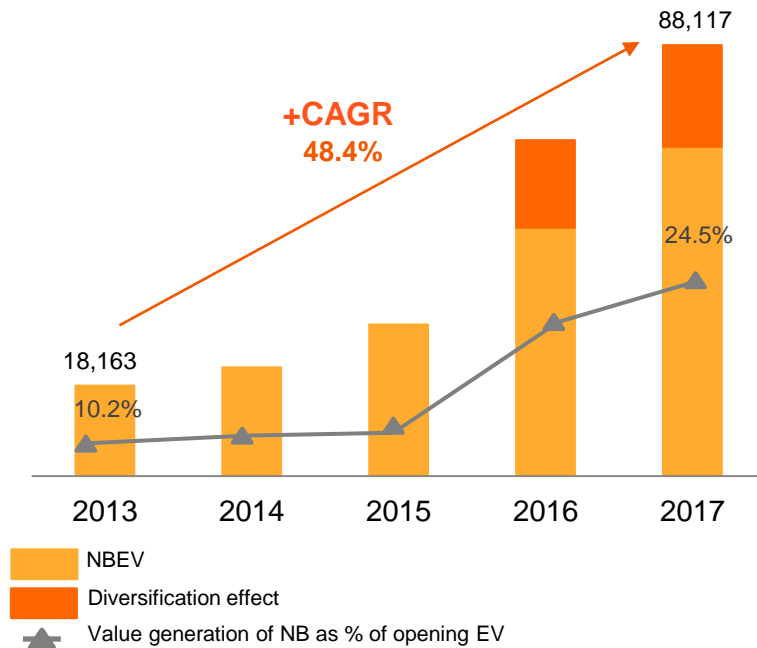
(2) Risk premium = RDR (Risk Discount Rate) - yield of the 10-year CGB.

(3) Profit volatility is calculated as the standard deviation of net profit growth over 2013-2017; Market peers include China Life, CPIC, Taiping and NCL; Sources: corresponding annual reports.

Underpenetrated Market and Leading Advantages Contributed to Sustained NBEV Growth

Sustainable NBEV Growth

(in RMB Million)



The method of EV valuation under C-ROSS states:

- Capital requirement of NB must be calculated at **policy level**, while that of in-force can be calculated at **company level**
- Capital requirement calculated at policy level > at total NB level > at company level, which generates **diversification effect**.

Capital calculation level

Example:

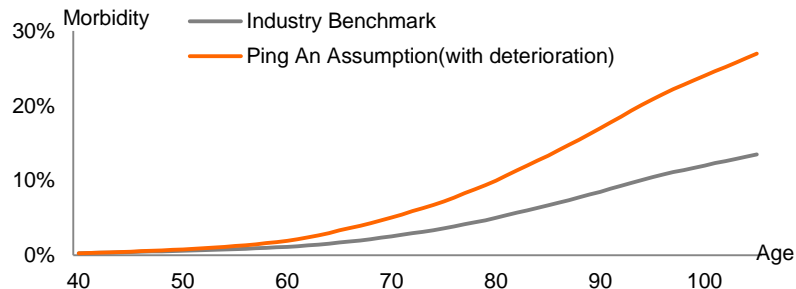
		Policy1	Policy2	Policy	Company
[A]	RES+DPL	250	300	550	550
[B]	RES+MC+DTL	300	200	500	500
[C]	CV+DTL	75	325	400	400
Liability + RC = MAX(A,B,C)		300	325	625	550

Liability+RC is lower calculated at company level

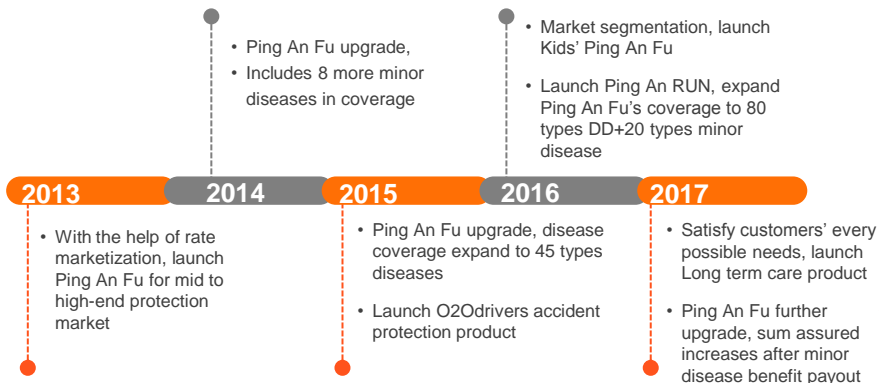
Note: (1) Above figures from 2013 to 2015 are based on Solvency I, while those from afterwards are based on C-ROSS

Prudent Assumptions and Excellent Management Drove High Operating Variance

Morbidity Factored in Long-term Deterioration

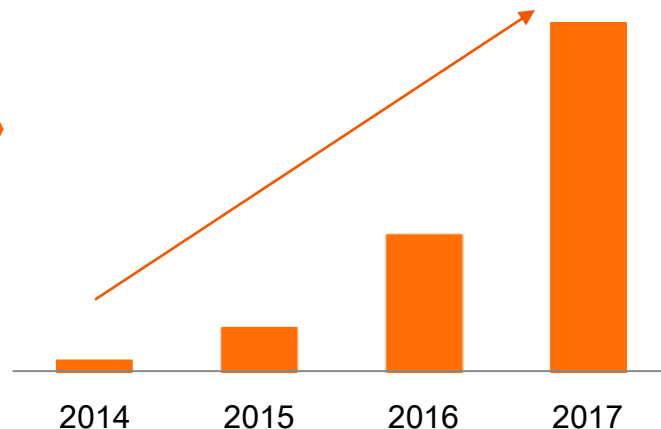


Expanding and Enriching Product Types



Fast Growth of Operating Variance

(in RMB Million)



Contribute
operating
variance

Investment and Operating Variances Resulted from Actual Experience Deviating from Assumptions

Example

- 3-year endowment
- Pricing rate: 3.5%
- Sum-assured: 1103
- Pricing mortality: 5%
- Single pay premium: 1000
- Initial # of policies: 100

	Actual experience	Reserve assumption	EV assumption	Operating assumption		Reserve assumption	Actual experience	EV assumption
Investment rate	6%	4%	5%	5%	Mortality	6%	2%	5%
Expected interest /Investment return	6000	4000	5000	5000	# of deaths	6	2	5
					Cost of death	432	144	360

Source of operating earning:

Spread income
= Diff. between operating and reserve assumption
= 5000-4000

Operating variance
= Diff. between actual and reserve assumption
= 432-144

EV:

Investment variance
= Diff. between actual and EV assumption, and
factoring in tax effect
= (6000-5000) * (1 – tax rate)

Operating variance
= Diff. between actual and EV assumption, and factoring
in tax effect and impact on VIF due to # of policy changes
= (360-144) * (1 – tax rate)
+ (5-2) impact on VIF

ROEV is a Key Measure to the Valuation of Life Company

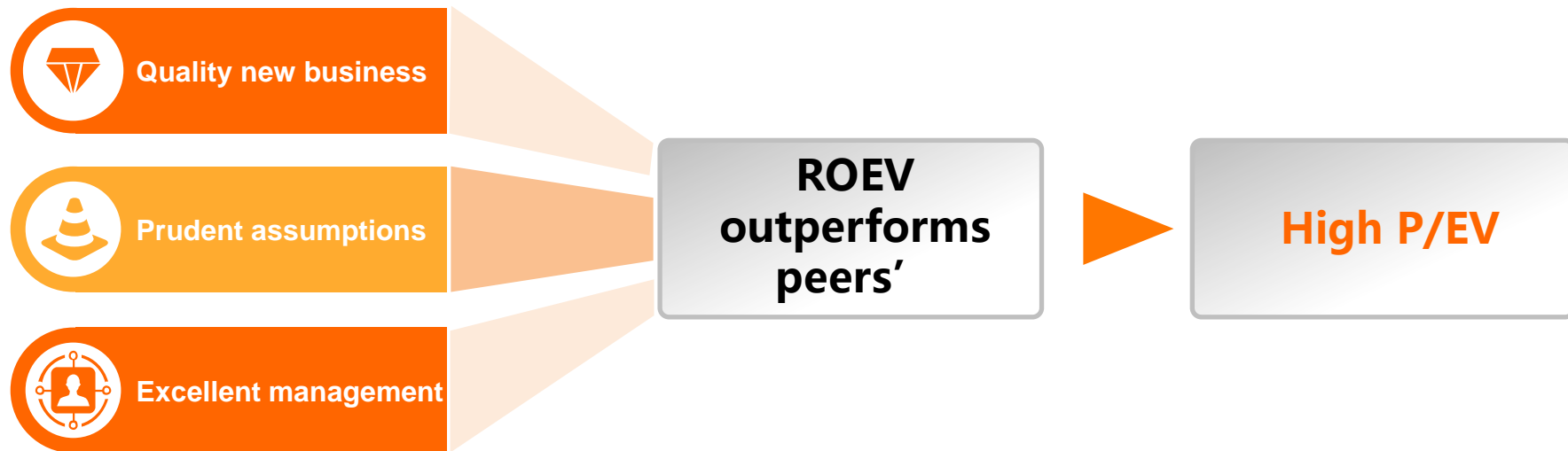
$$P/EV = \frac{ROEV - g}{r - g}$$

The higher *ROEV*, the higher *P/EV*

Apply the 5-year average ROEV of Ping An L&H (24.7%), P/EV is calculated under different RDRs and dividend growth rates:

P/EV example		g : Dividend growth rate				
		3.0%	4.0%	5.0%	6.0%	7.0%
r : RDR	9.0%	3.6	4.1	4.9	6.2	8.9
	10.0%	3.1	3.5	3.9	4.7	5.9
	11.0%	2.7	3.0	3.3	3.7	4.4
	12.0%	2.4	2.6	2.8	3.1	3.5
	13.0%	2.2	2.3	2.5	2.7	3.0

Recap



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Excellent Delivery of High ROE by Mostly All Sectors

(in RMB Million)

2017	Equity attributable to shareholders of the parent company	Portion(%)	ROE(%)
Life & Health	160,450	33.9%	25.7%
P & C	69,804	14.7%	20.0%
Banking	128,791	27.2%	11.6%
Asset Management	103,848	21.9%	15.7%
Fintech and Healthtech	37,772	8.0%	41.2%
Others and elimination	(27,314)	-5.8%	N/A
Group	473,351	100.0%	20.7%

Market Value of the Technology Sector Far Exceeded Equity

Fintech and Healthtech

Market Value

Autohome Inc.	USD9,057mn
Good Doctor	HKD55,804mn
Lufax	USD18,500mn
OneConnect	USD7,500mn
Healthcare tech	USD8,800mn
ZhongAn Online P&C	HKD46,967mn
Other	RMB444mn

Value attributable to shareholders of parent company is 153.8 billion RMB and it is 4.1 times of equity which is 37.77 billion RMB.

Valuation Framework of Ping An Group

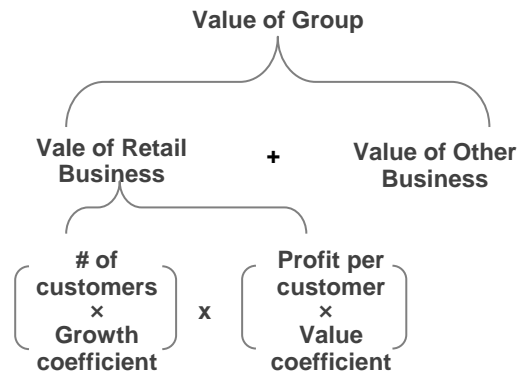
1

Sum of Parts Valuation

Sectors	Valuation method
L&H	PEV
P&C	PB
Banking	Market value
Asset Management	PB
Tech	Market value
Adjustment	

2

Customer Economic Model



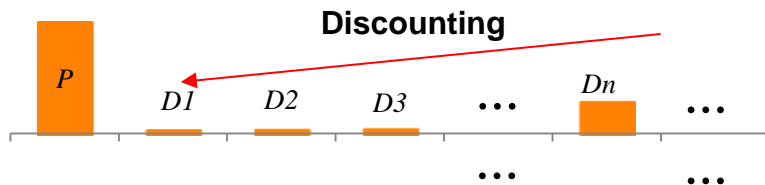
Thank you!



Appendix: ROEV is a Key Measure to the Valuation of Life Company

Gordon Growth Model

■ Dividend growth rate is g ; RDR is r



Stock price in theory P :

$$P = \sum_{t=1}^{\infty} \frac{D1(1+g)^{t-1}}{(1+r)^t}$$

$$P = \frac{D1}{r-g}$$

Note: RDR is assumed to be higher than dividend growth rate

Valuation via ROEV

EV operating profit and operating profit are Correlated
Dividend can be expressed in terms of ROEV,
consider dividend payout ratio f :

$$D1 = EV * ROEV * f$$

Dividend growth rate g is related to ROEV and f

$$\begin{aligned} \Rightarrow g &= ROEV * (1 - f) = ROEV - ROEV * f \\ ROEV * f &= ROEV - g \end{aligned}$$

$$P/EV = \frac{ROEV - g}{r - g}$$

ROEV is a key
valuation
measure.

↑ ROEV, ↑ P/EV

Ping An Bank Transformation

Xie Yonglin

Chairman of Ping An Bank

2018.10.12 Shenzhen, China

A new Ping An Bank came into being in 2012 after integration of the two banks

平安银行
PING AN BANK

2003

PA acquired
Fujian Asia Bank

2004

Fujian Asia Bank
was renamed as
Ping An Bank (PAB)

2006

PA acquired
Shenzhen
Commercial
Bank

2010-2011

PA held a 61.36% stake in
Shenzhen Development Bank
after many times of equity
transactions



Integration

2012

Ping An Bank (PAB) came
into being after integration
of the two banks



平安银行
PING AN BANK



深圳发展银行
SHENZHEN DEVELOPMENT BANK

1987

SDB was founded

1991

Listed at SSE,
with the stock
code of 000001

2002

Introduced a strategic
investor Newbridge
Capital

2010

Newbridge transferred all
of its shares to PA, and PA
held a 21.44% stake in total

Ping An Bank started retail transformation to meet internal and external challenges in 2016

Insufficient internal development momentum

- **Challenges in asset quality:** At the end of 2016, the amount and ratio of non-performing loan (NPL) was growing relatively fast YoY, with the loans overdue for over 90 days ratio hitting a record high
- **Declining profitability:** Some business units' performance has been declining and was dragging down entire bank's profit growth
- **Relatively weak capital**

Traditional business model cannot cope with rapid external changes

- **Shift of focus:** From growth-focused development to quality-oriented development. Mid and high-end consumption and innovation become the new growth drivers
- **Tightening financial regulations:** Risk prevention, de-leveraging and other regulatory measures put financial risk prevention into a bigger priority

To foster development, transformation was imperative under the situation

In October 2016, PAB introduced a new management team and began the reform:

Precise transformation objective: to become China's most outstanding and the world's leading smart retail bank

Formulate transformation guidelines: technology oriented; penetrate retail banking; enhance corporate banking

With a clear objective and strategy, Ping An Bank introduced ten initiatives to promote its transformation and already seeing results

1

Optimize business structure, reduce corporate on/off balance sheet credit scale

6

Selective in corporate banking, focus on 'dual-light model and industry based pathway

2

Focus on asset quality, legacy issue and incremental asset

7

Fully utilize group's integrated finance value

3

Embrace the group, to drive retail business with technology

8

Increase tech investment to drive business development

4

Enhance LUM to create revenue

9

Promote micro capital management

5

Develop an automatic, smart retail risk control system

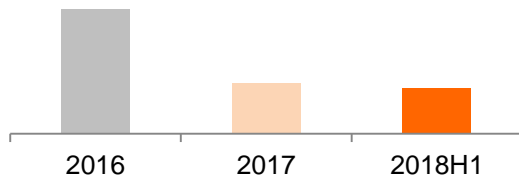
10

Rebuild management team and promote efficiency

Initiative 1: Optimizing business structure, compress on/off-balance sheet corporate credit size, and focus on higher profitability retail business

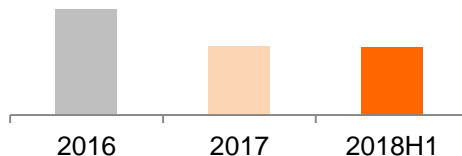
Corporate loan

Unit: RMB100mn



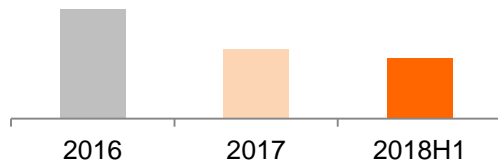
Corporate off-balance sheet

Unit: RMB100mn



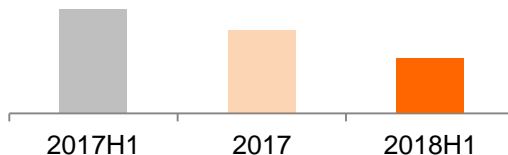
Corporate RWA

Unit: in RMB100mn



Interbank RWA

Unit: RMB100mn



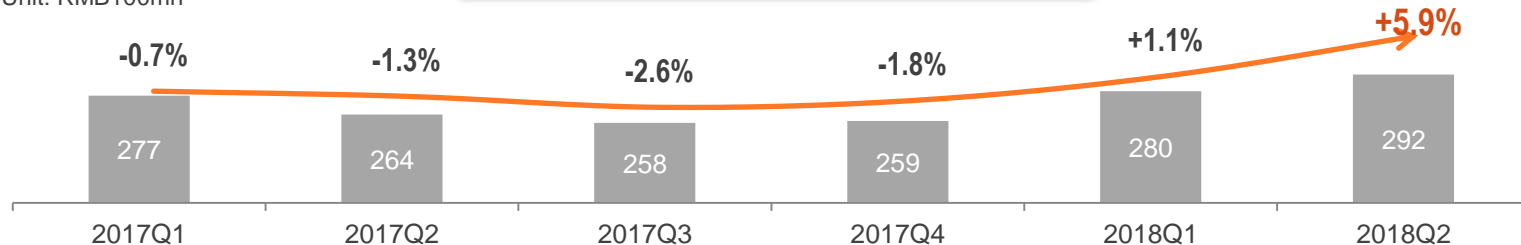
- Meaningfully compressing asset scale with RWA reduction ranked 1st among peers, freeing up resources to develop retail business
- First in industry to lower leverage, hence facing relatively less pressure from moving off-balance sheet items back on balance sheet (An estimation of RMB30bn has to move back to balance which is very manageable.)

Note: interbank business scale began to compress from 2H 2017

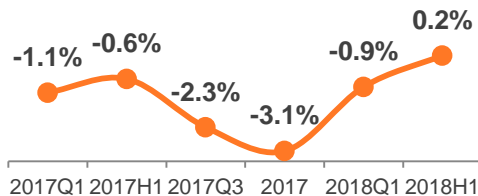
Steady profitability and growing revenues

The “smile” curve of revenues

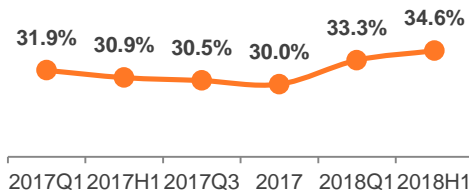
Unit: RMB100mn



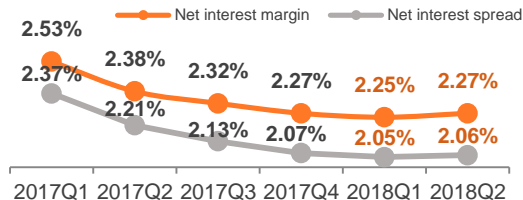
Net interest income restored to positive growth YoY



Growing proportion of non-interest income



Net interest margin reversed the declining trend

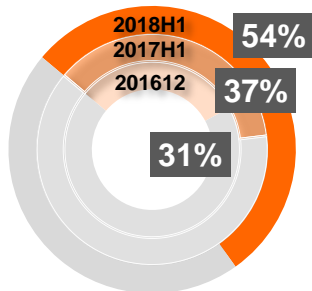


Note: The decrease in net interest margin in 2017 was partly due to the active reduction of high-risk and high-return corporate loans.

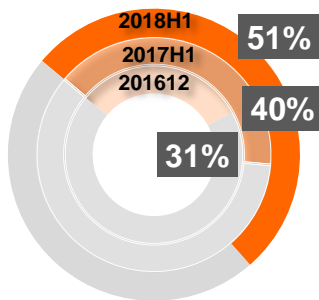
Fundamental change in business structure: retail banking becomes the main growth driver

As of Jun. 30, 2018, the revenue structure saw over 50% of revenues from retail banking vs 31% two year ago.

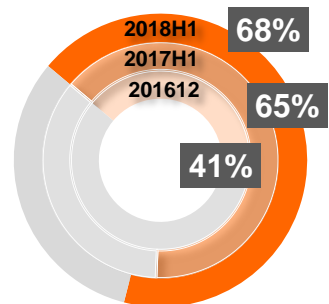
Retail loans of RMB**998.9bn**,
accounting for **54%**



Retail revenues of RMB**29.3bn**,
accounting for **51%**



Net retail profit of RMB**9.1bn**,
accounting for **68%**



Initiative 2: Focusing on the quality of both existing and new assets

Speed up legacy asset disposal

- **Actively promote industries with overcapacity and high-risk customers to exit:** Encourage red and yellow label customers to exit with incentives
- **Strengthen recovering assets:** Set up a Special Asset Management (SAM) team with a multi scenarios smart SAM platform to realize 100% closed environment handling process
- **Centralized handling on special units for timely response:** Differentiated strategies and specialized management to accelerate recover of assets

Control quality of new assets

- **Crystalized standards:** By stipulate cooperating institutions and managing distributors to ensure asset quality from beginning
- **Systematically allocate resources with risk management as top priority:** Priorities risk management control policy, credit review, and legal&compliance review and focus on target industries, customers and products

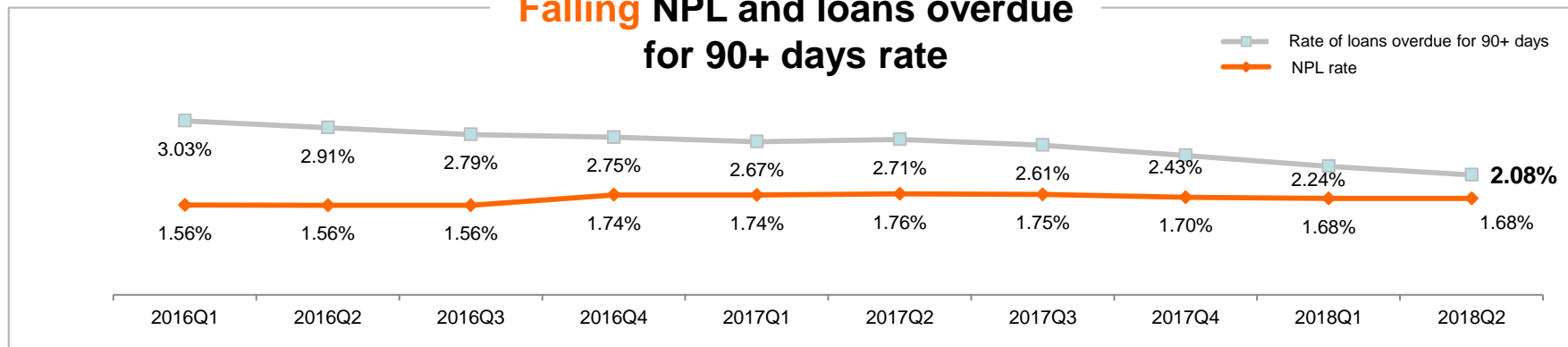
Industry: Electronics information, healthcare, culture & education etc.

Region: Beijing, Shanghai, Guangzhou, Shenzhen...

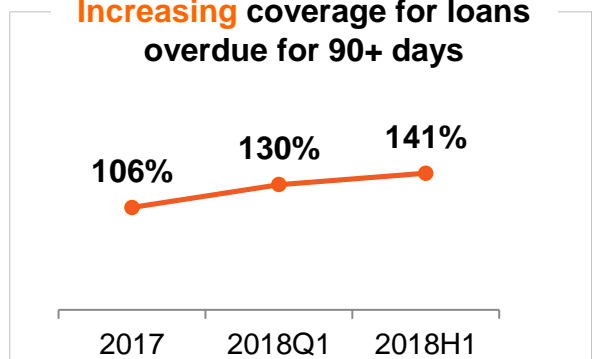
Customer: Quality customers from major industries etc.

Asset quality continue to improve while all risk indicators are showing positive signs

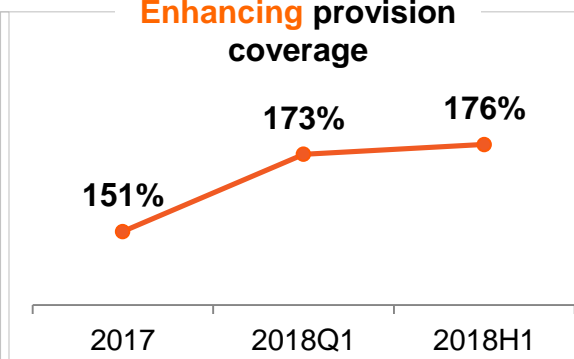
Falling NPL and loans overdue for 90+ days rate



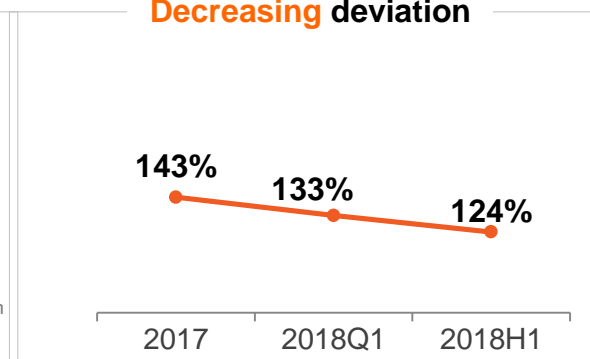
Increasing coverage for loans overdue for 90+ days



Enhancing provision coverage



Decreasing deviation



Deviation=NPL rate of loans overdue for 90+ days/NPL ratio

Initiative 3: Embracing the Group and technology-driven retail banking to shape differentiated competitiveness

S

- **Integrated finance:** Customer groups, 1mn+ agents, various cross-selling channels
- **Tech strength:** Big data, blockchain, cloud, biometrics, and AI

W

- Relatively small number of outlets
- Gap exist between PAB and some peers as they have begun transformation earlier than PAB

O

- Higher standard of service and experience expected from customers
- Greater demand for low-threshold financial services from customers in tier 3 and 4 cities

T

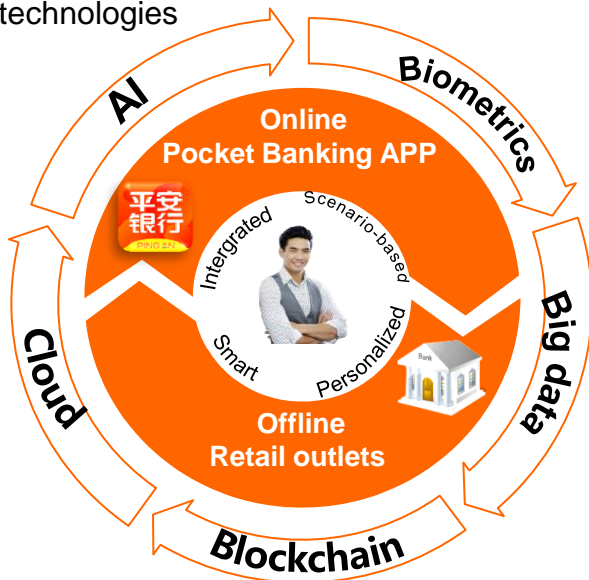
- Tightening regulation bring new challenges to the whole industry
- New business development model demands more from management team

Embracing the Group & tech-empowered business
is best choice for PAB to achieve differentiated retail banking

Innovative OMO(Online Merge Offline) new retail business model

OMO driven retail business model

- Online: By using the Pocket Bank APP to provide a one-stop, smart and open mobile platform
- Offline: upgrade outlets through smart recognition, AI and other technologies



Three actions

APP integration: Integrate the original pocket banking APP, Chengzi APP and credit card APP to form the new Pocket Banking APP 4.0

Smart outlets: Develop a multi-diversification, community friendly smart outlet network and turn it to the offline entry of group's integrated finance model

SAT model: Through Social Media, APP and Tele (SAT) to integrate resource, improve management efficiency and customer experience

Rapid retail growth leverage from technology and integrated financial platform

❑ Solid foundation

- Rapid growth of revenues, retail deposits, AUM and customer base, of which the number of customers ranks 2nd among benchmarking banks

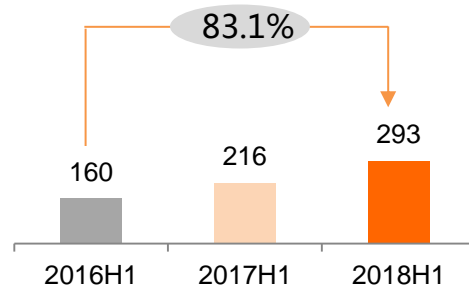
❑ Technological characteristics

- MAU the new pocket banking APP reached 24mn, ranking 2nd among joint-stock banks
- The productivity per smart outlet staff (eg Lihua outlet) is 2+ times above the bank average

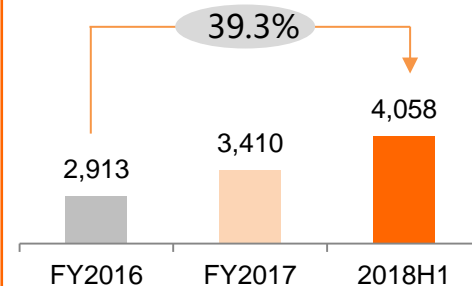
❑ Fast and continuous growth

- AUM growth ranking 2nd among benchmarking banks
- Loan growth ranking 1st among benchmarking banks
- Deposit growth ranking 3rd among benchmarking banks

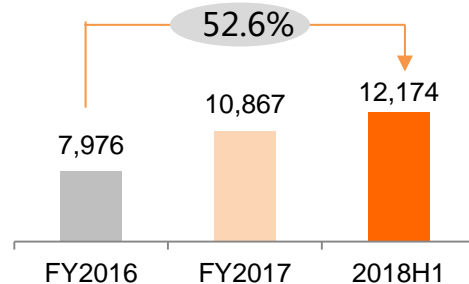
Retail revenues
(RMB100mn)



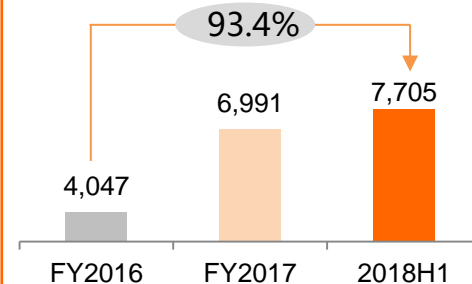
Retail deposits
(RMB100mn)



AUM (RMB100mn)

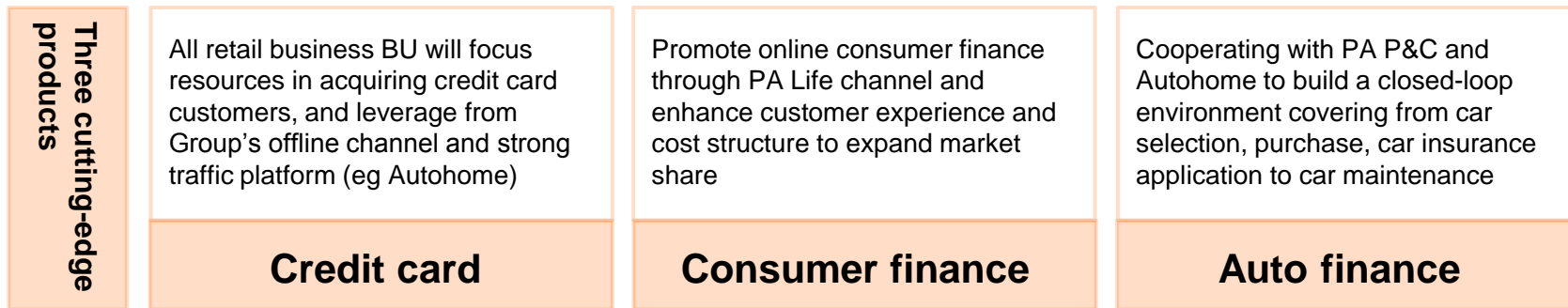


Retail customers (mn)



Initiative 4: Identify strategy to expand LUM scale in order to create revenue

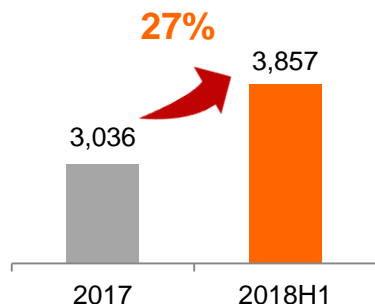
As urbanization level and consumer consumption continue to improve, consumption's effect on economy is becoming more significant and creating opportunities for retail finance



Seize the opportunity to expand scale and create revenue to develop platform and AUM

Core retail business growing fast and steadily

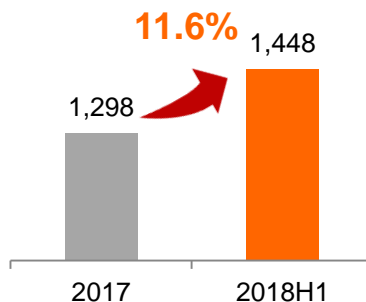
Credit card loan balance



- Accumulated **9.18mn** new credit cards are issued, up **81.2%** YoY
- **45.77mn** cards are under circulation, up **19.4%** YTD
- Total transaction amount for RMB**1,207.2bn**, up **89.9%** YoY

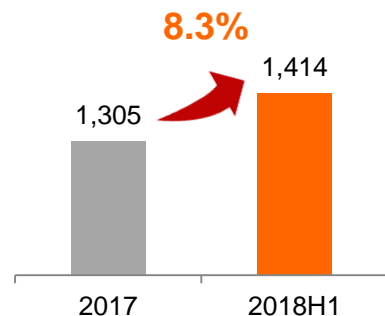
Note: Data as of 1H 2018

Xin Yi Dai loan balance



- RMB**56.4bn** worth of loans were issued in 1H 2018
- Supporting micro and small businesses with business loans account for about **30%** entirely

Auto finance balance



- Ranked **1st** in market share
- RMB**71.6bn** worth of loans were issued, up **52.7%** YoY
- Overall automated approval rate of **67%**, up 2 percentage points YTD

Leverage by Group's synergies, PAB's credit card business is among top tier vs. peers

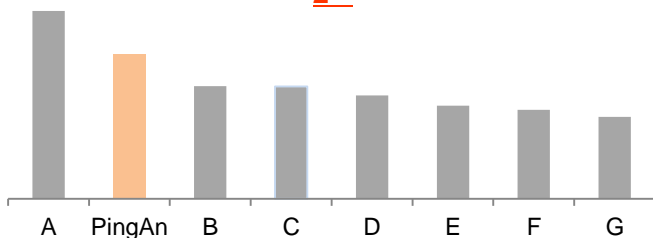
Credit card: Both the number of active accounts and transaction amount rank 2nd among joint-stock banks

Active accounts

No. of active accounts in 1H 2018 ranked

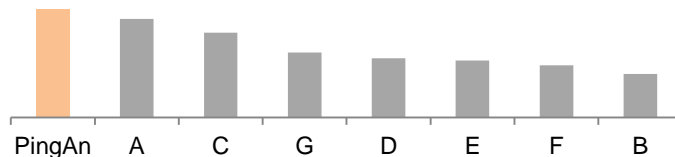
2nd

Unit: 10k



Net growth of customers in 1H

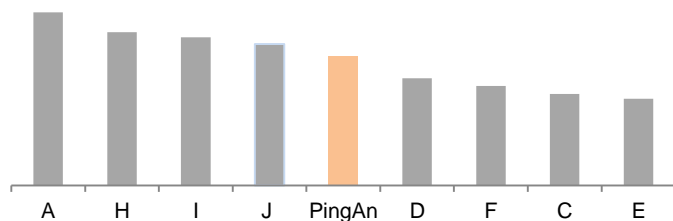
2018 ranked 1st



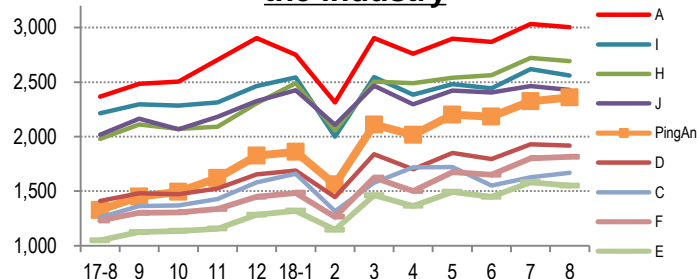
Transaction amount

Transaction amount in Aug. 2018 ranked 2nd among joint-stock banks

RMB100mn



PA has the fastest Transaction growth in the industry



Initiative 5: Create an automated smart retail risk management system to protect LUM business

Two advantages

Automation

- 100% live approval process for credit cards; 85%+ automated system approval
- Average approval time for auto finance is 0.4 hour, the quickest among peers; approval process of unsecured auto loan are done within seconds

Smart

- **Credit card:** A trading-level big data risk management system to block frauds in real time, ensuring zero loss for both bank and customer
- **Auto finance:** AI-based pricing system to apply smart pricing subject to customer ranking
- **Xin Yi Dai:** Set up a multi-dimensional risk monitoring system regarding each product types, branches, sales teams and intermediaries on a daily/weekly/monthly/quarterly basis

Three core capabilities

Big data platform

- Financial big data
- Internet big data

Rating based on multiple algorithms

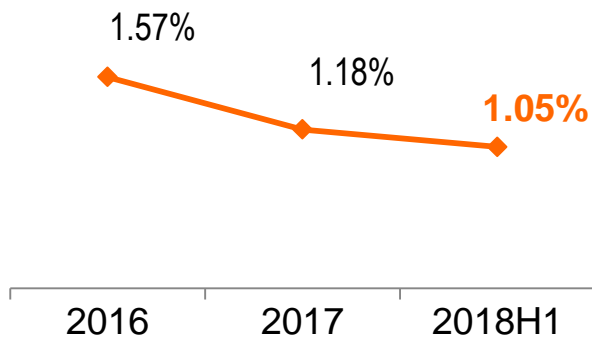
- Credit risk forecast & rating
- Customer income evaluation model
- Revenue forecast model

Biometric information application

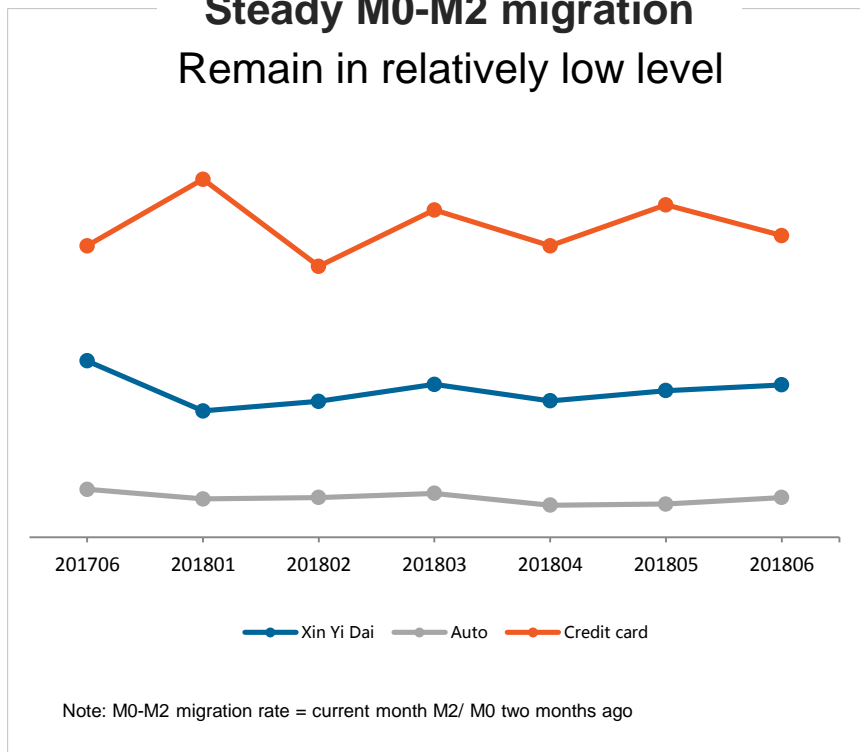
- Biometrics (face recognition & voiceprint)
- Fingerprint

Retail loan asset quality maintain positive leverage from smart risk management platform

- NPL rate of retail loans dropped **13BP** vs end 2017



Steady M0-M2 migration Remain in relatively low level



Initiative 6: “Dual-light + industry-based” strategy for corporate banking business

Dual-light: Asset-light + capital-light

Precise target investment, maintain asset liquidity and develop using none-minimal capital

- **Upgrading transaction banking:** Set up the “platform + product + service” model to shape popular products (KYB, SAS)
- **Investment banking:** Work with PA Securities to carry out capital market business through a centralized, scandalized business model
- **Syndicated loan:** Aiding enterprises to secure funding from other financial institutions
- **Government financing:** By creating synergy with Group’s smart city ecosystem project to connect with government platforms for deposit business

Industry-based

Focusing on **ten key industries** with strong growth which are not subject to cyclical impact

- **Setting up professional teams:** Continue develop the industry focus BU, in cooperation with HQ, to improve ability in research, service and risk
- **Crystalized business boundary:** Depending on industry movement and peers competition, we should crystalized business boundaries especially in business areas we do not involve in

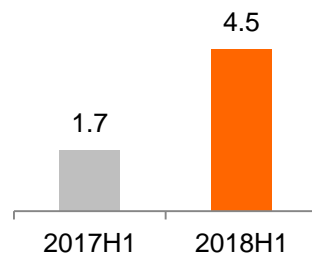
The dual-light + industry-based strategy has brought good results

Creating a bigger input with fewer resources

Leveraged from RMB**44.8bn** on-balance sheet to raise RMB**196.2bn**

Last year, RMB144.2bn were raised by leveraged from RMB84.4bn on-balance sheet

Dual-light multiples



The industry-based strategy has become the consent within Ping An bank

Focusing resources



After the introduction of new management, the targeted ten industries accounted for 90+% of the newly issued corporate loans



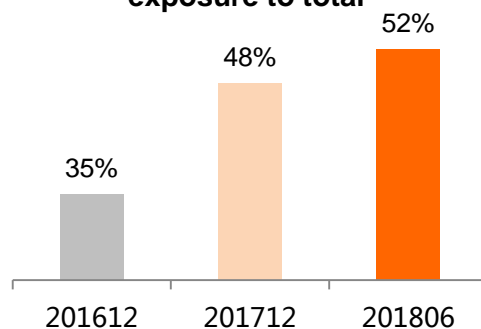
Breakthroughs

Strategic cooperation with several major pharmaceutical companies to offer integrated financial services to customers

The structure of corporate asset has been optimized continuously

- Since the transition, the proportion of cooperate credit resources to the “Top Ten Industry including Government” has increased year by year.
- And that would lead to improvements in asset quality

Ratio of “Top Ten Industry including Government” credit exposure to total



Initiative 7: Further exploration of the value of Group's integrated finance platform

PAB can leverage the Group's integrated finance platform to form synergies with other subsidiaries in customer resources, professional capabilities, product capacities and channel strength to offer one-stop financial services to customers.

Cross-selling & customer referral

- Connect to other subsidiaries and internet platforms to develop individual and corporate customers
- Referral through cross-selling

Scenario-based business synergy

- Cooperate with Ping An Securities, Ping An Leasing to meet the full-cycle of financial demand of customers

Ecosystem building & innovative development

- Participating in the building of the five ecosystems
- Cooperation with other subsidiaries: from customer traffic connection and business complementarity to business integration & innovation

Group's integrated finance platform

179mn individual customers

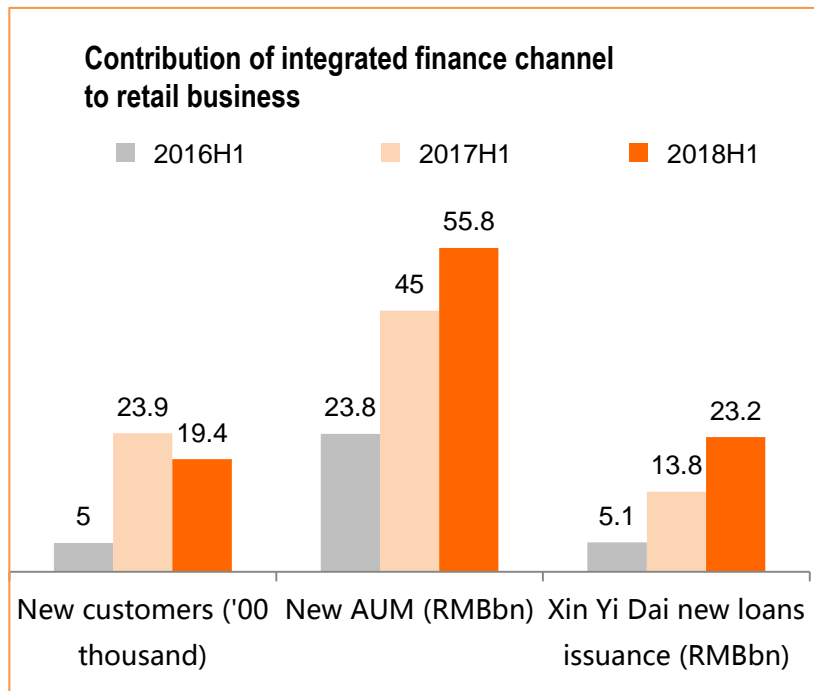
2mn corporate customers

486mn internet users

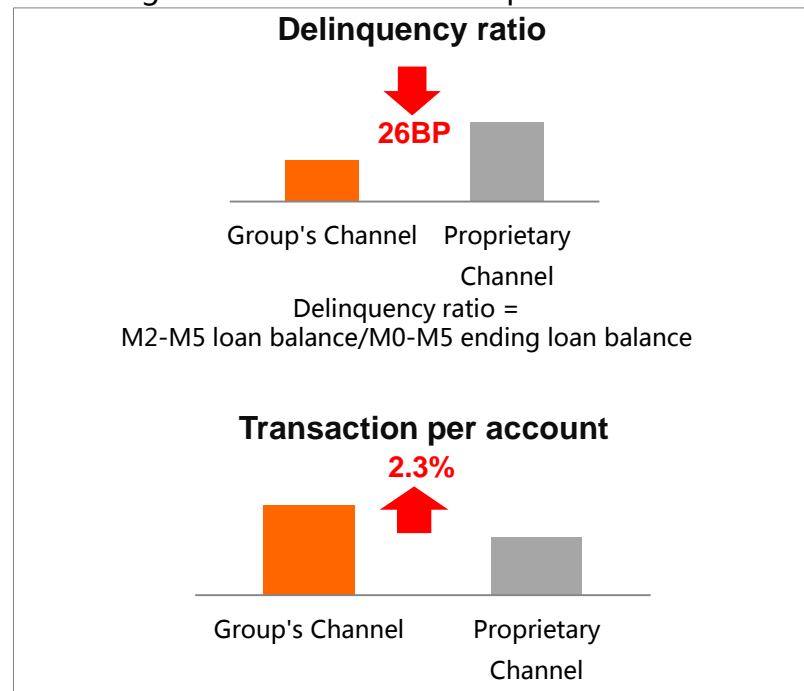
1.399mn agents

Increasing contributions from Integrated finance channel with higher customer quality

- Group's integrated finance channel has been increasing contributions to the Bank's retail customers, AUM and XinYiDai loans yoy



- Take credit card business as example. Group customers are of better quality.
- Group customers showed lower delinquency ratio and higher transaction amount per account.

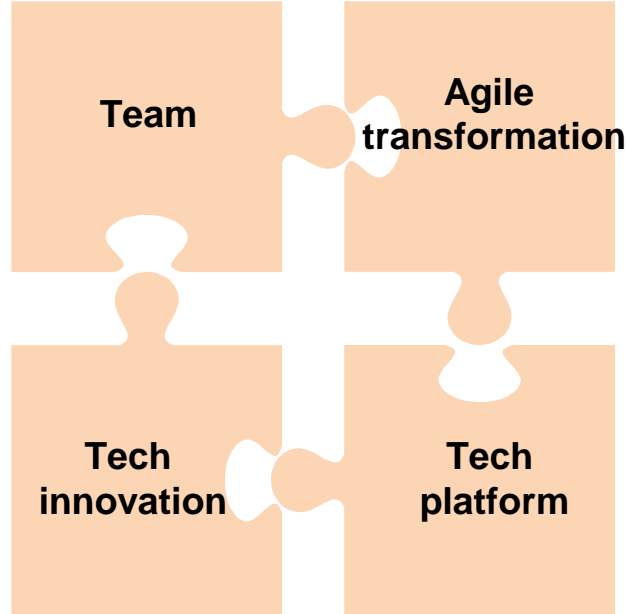


Note: data as of 1H 2018

Initiative 8: Increase technological input to drive business development

- Bringing in technological talents from Silicon Valley and top internet companies
- Strengthening tech team to lift tech innovation capability, the technology manpower of our bank has expanded to 4800, a YoY growth of over 25%.

-
- Set up an innovation committee and an “innovation garage”
 - Explore application scenarios for big data, AI, biometrics and imaging recognition tech



- Embed tech staff into business lines to quicken new tech implementation and relevant operating model
 - Agile development in credit card, auto finance, big data and the pocket finance app
-
- Set up comprehensive disaster recovery tech systems and big data systems
 - Migrating all development, testing and production processes to Cloud-based systems

Tech input strengthened driving business development and upgrade operational management

Tech-empowered management

Smart-finance platform

- Connecting use-case scenarios, processes and data to improve end-to-end business finance procedure

Credit platform

- Smart analysis and smart searching to empower business decision-making
- Life-cycle management covering all financing businesses to corporate clients
- Forecast and pre-warning of risks and providing countermeasures

Tech-empowered products

KYB

- Promote online smart lending business

SAS

- End-to-end process data monitoring and one-stop comprehensive services

Tech-empowered services

AI + risk management

- Timely and accurate risk management through the smart control and big data warning systems

AI + customer

- Convenient online services; over 90% of customer service done by AI within in 1-2 years

AI + marketing

- Customer profiling for precision marketing; AI secretary to assist business development

Initiative 9: Promote refined capital management

Economic capital management centering on EVA/RAROC to efficiently deploy capital and enhance capital adequacy



Appraisal & guidance

- **Appraisal:** Carry out EVA/RAFOC appraisal and guide business units to balance risks and returns;
- **Differentiated guidance:** Tailored appraisals toward normal branches and special branches;
- **Strengthen incentives:** Linking credit and RWA resource consumption to EVA/RAROC appraisal in order to strengthen incentive



Capital release

- **Tax write-offs, asset disposals & recoveries:** Manage assets that have been written off, increase bad loan write-offs/ transfers and recoveries



Saving capital

- **Structure adjustment:** Restructure high capital consumption businesses to release RWA;
- **Selective compression:** Selectively compress inefficient/ineffective assets;
- **Clean-up:** Clean up litigation reserves, current accounts and collaterals to reduce capital waste

As of June 2018, capital adequacy ratio rose sequentially for two quarters

- Through a series of capital management measures, capital adequacy ratio in at end-1H18 reversed the previous declining trend, showing improvement in capital management capabilities.
- We plan to issue RMB26bn of A-share convertible bonds and RMB30bn of secondary capital bonds to bring in supplementary capital

%	Standard value	1H 2018	2017	2016
Capital adequacy ratio	≥10.5	11.59	11.20	11.53
Tier 1 capital ratio	≥8.5	9.22	9.18	9.34
Core tier 1 capital ratio	≥7.5	8.34	8.28	8.36

Initiative 10: Rebuild management team to enhance efficiency

Rebuild management team

- **Talent diversification:** Adjust core management personnel of front, middle and back offices as well as major branches; bring in veteran bankers, internet talent and experts
- **Attract young talent:** Bring in young blood for the management team

The new management team forms consensus on the target of transformation and becomes strong promoter of the Bank transformation

Enhance efficiency

- **Streamline structure:** Level 1 departments of the head office shrank by 28%, offices cut by 33%, and non-retail personnel reduce by more than 5,000 people
- **Enhance capacity:** Enhance employees' skills and capabilities through multi-layered online-to-offline training

At end-2017, productivity per corporate bank staff rose by **32% yoy**

Going forward, Ping An Bank will strengthen its competitive advantages and pursue rapid development by holding fast to the transformation target, adhering to the Group's leadership, and leveraging technologies and wider Group synergies.

Enhance fundamentals, create breakthroughs, execute on transformation

Enhance retail transformation, embrace Group synergies and technologies

Enhance fundamentals

- Maintain stable asset quality
- Strengthen deposit base via multiple strategies
- Improve refined capital management capabilities

Breakthroughs

- Strengthen private banking and wealth management capabilities
- Accelerate credit card business to build PA new brand
- Promote corporate knockout product

Accelerate AM transformation, strengthen AM capabilities and improve product supply

Enhancing fundamental: Redouble commitment to improve asset quality

Control risks

- By focusing on the business in the ten target sectors, business departments are accelerating pace to exit non-priority sectors and allocating resources to quality customers

Strengthen clearing of NPA

- Multiple packaging strategies to enhance NPA disposal
- Accelerate NPA disposal by leveraging big data, ecosystem, and innovative recovery models

Leverage technologies

- Established AI-based risk control platform to improve detection and management in advance

Specialized management

- Performance and incentives of business heads are tied to asset quality. Dedicated people to regularly track disposal of distressed assets

NPL ratio, overdue 90 + ratio and NPL deviation outperformed industry average

Our asset quality will seek progress while maintaining stability

Enhancing fundamental: Strengthen deposit base through multiple strategies

Retail deposits

- **Operating deposits:** Expand retail AUM to drive demand deposits
- **Deposits for settlement:** Deposit growth through the B2B2C model and aggregate payment on the banking App
- **Active liability:** Optimize the structure of deposit products, strengthen marketing, maintain pricing advantages, and offer convenient purchase channels to lift wealth management deposit scale

Corporate deposits

- **Government financing:** Obtain quality deposits and settlement accounts of local governments
- **Transaction banking:** Strengthen connection to platforms to obtain fund aggregation deposits of platform customers
- **Investment banking:** Obtain investment banking project funds through “commercial banking + investment banking + investment” model
- **Active liability:** Improve service and price competitiveness to boost growth in large sum certificate of deposits and structured deposits

Enhancing fundamental: Reform capital management to support transformation

Refine capital management

Promote refined capital management

- Pro-active dynamic capital allocation, adjust business structure based on the “asset-light, capital-light” (Dual-light) strategy and implement capital saving and capital release measures

Incorporate economic capital management to better manage risk weighted assets

- Incorporate economic capital management into performance appraisals and guide branches to establish capital saving awareness; instill the concept and value of capital cost and capital management into daily operations and management

Improve internal and external capital supplement mechanisms

Adjust asset structure to improve risk weighted asset allocation

- Basing on RAROC to dynamically adjust risk weighted asset mix in order to improve capital consumption efficiency
- Continue to compress high-capital-consumption low-return assets to free up capital for high RAROC business

External capital supplement to lift capital level

- We plan to issue RMB26bn of A-share convertible bonds and RMB30bn of secondary capital bonds to bring in supplementary capital

Making breakthroughs: Strengthen private banking and wealth management capabilities

Client

Clients are mainly from inheritance club, the group's high-end clients are in the centre

Product

Utilizing group resources, building open platform, improving AUM structure, creating brand of private bank

Marketing

Reorganizing the group's marketing advantages, making scene marketing, exploiting differentiated interests, enhancing customer loyalty

Team

Centralized and cyber-ized investment consultant capability, along with the offline training system for the improvement of portfolio management services

Organization

- Establish Flagship sub-center
- Develop customized policy
- Improve the coordination and collaboration between Private banking center and sub-branches of bank



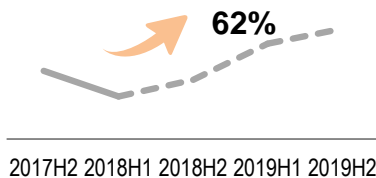
Making breakthroughs: Develop credit card business with tilted resources

Customer acquisition strategy

Cross-selling

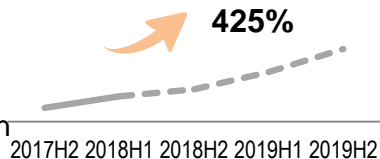
- MGM referral (Member Get Member)
- Sharing platform
- Support from management

Monthly customers acquired (in 10,000)



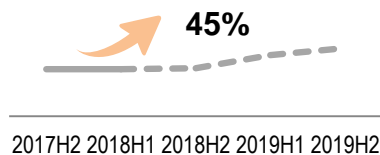
Internet channel

- Expand traffic
- Precision input
- Enhance conversion



Others

- Improve capacity
- Explore branches' resources
- Cross-selling



Operation strategy

S (Social media) Brand expansion

- Promotion of credit card benefits through Group's millions of agents
- Promotion by >70mn retail and credit card customers
- All-round branding by Group and PAB

A (App) Enhance experience

- OMO for openness and interconnectivity
- Better app experience than peers with 20-40 categories to form market dominance

T (Tele) Drop-out marketing

- Enhance marketing efficiency through timely tele-communication service
- Re-acquire customers lost through drop-out services

Agile operation

- Establish an agile structure in marketing, IT and all supporting teams to enhance delivery efficiency and market response

Making breakthroughs: Corporate business to leverage Group tech to adopt “platform + product + service” model

Popular products

Solving pain points

KYB

- Promote online smart lending business
- Tackle the high cost of financing and other difficulties in financing

SAS

- Leverage technologies and PAB's experience in supply chain finance
- Tackle the difficulty in obtaining funding for small and micro businesses and in verifying the authenticity of trade

Key advantages

- **Scale:** 90mn small and micro customers
 - **Relatively low risk:** Scenario-based risk models to shape online smart financing services with controllable risks and costs
 - **Efficiency:** Online operation and automated system approval to offer superior customer experience while enhancing business efficiency
 - The product will be released to the market in 1H 2019 to become one of the new profit engine of PAB
-
- **Great Potential:** SAS platform able to serve accounts receivable amount up to RMB13.5tr, which grows by 10% p.a.
 - **Technology Empowered:** Application of Ping An's four blockchain core skills (distributed ledger, authorized encryption, zero-knowledge proof, smart contract) dramatically improves the efficiency of deal-making.
 - **Win-win Open platform:** The participants in the open platform alliance industrial chain are provided with both standardized and customized services, co-building the ecosystem of supply chain finance

Promote asset management transformation, improving competitiveness

Strengthen transaction

- Deepened cooperation with PA Securities, leveraging its quantitative strategy team and pricing model to strengthen transaction capabilities

Improve product

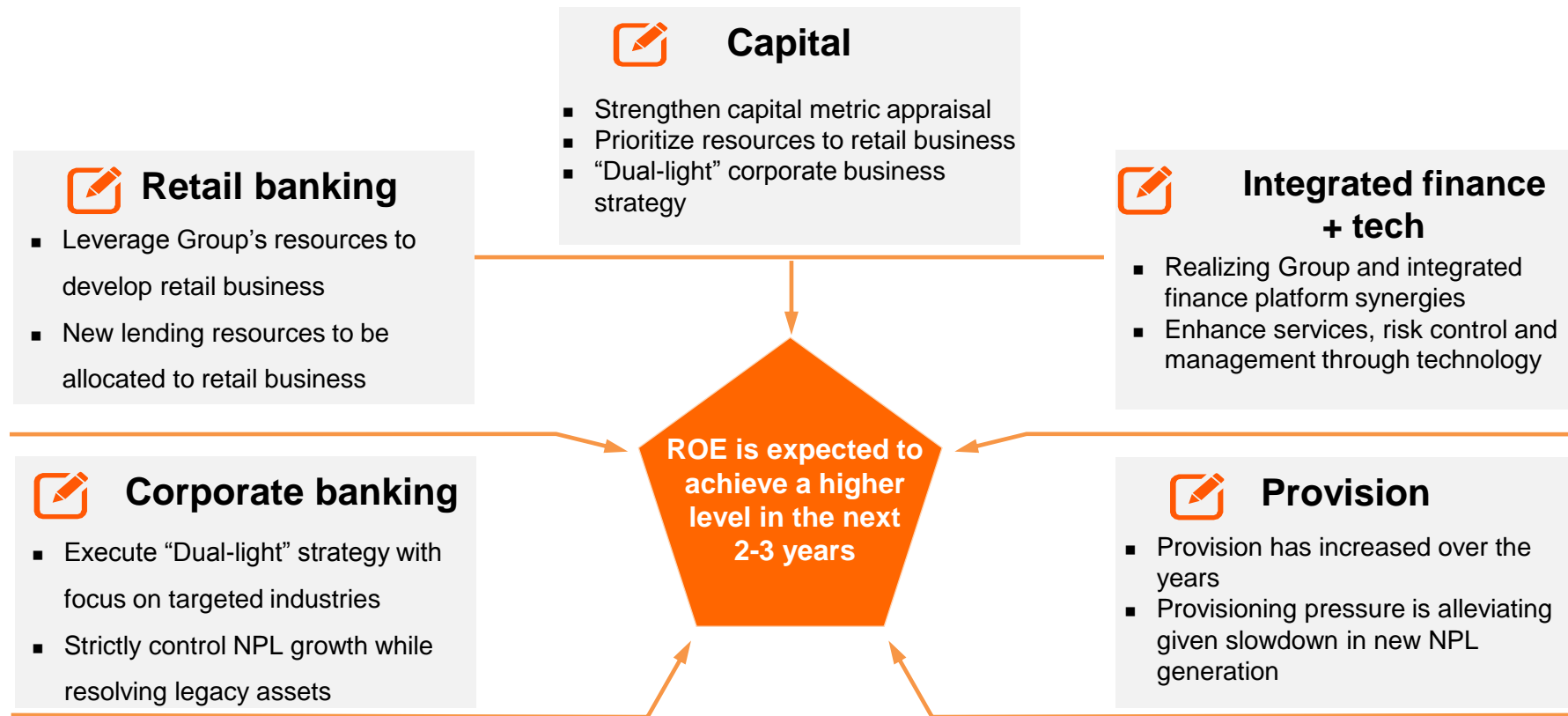
- Optimize product variety to serve diversified customer needs
- Accelerate NAV product issuances in compliance to New AM rules; enhance research on equity type products and overseas products

Build professional AM capabilities to improve brand influence

Accelerate product supply to expand AUM

Fulfill diversified customer needs to improve customer stickiness and loyalty

As Bank transformation progresses, the ROE of PAB will reach or exceed the industry average



PAB will play a pivotal role in PAG's integrated finance strategy



Bank license is an integral part of the Group's Integrated Finance strategy



Bank is **the main provider of retail integrated finance product and service**, supporting Group's vision



Bank smart flagship stores will be **Group's offline traffic portal**



Private banking will be **Group's core part of wealth management business**



Try to improve ROE in the next 2-3 years to become **an important profit contributor to the Group**



Open distribution capability to become **the biggest channel for corporate customer service**



Provide account function, payment and settlement, financing services **to promote Group's ecosystem strategy**

Thanks



Investment Risk Management

Timothy Chan
Group Chief Investment Officer

2018.10.12 Shenzhen, China

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1. Key investment challenges and our performance

2. Ping An's investment and risk management regime

3. Dealing with key risks within insurance assets

◆ Three main questions we ask ourselves: Key challenges? How to manage? What to expect?

- 2013-16, non-standard investments grew by 55% CAGR;
- YTD Jun, 7 corporate bonds in the market defaulted for the first time
- YTD Aug, A-shares fell by 17.28%



Key challenges?

- Mismatch between assets and liabilities – lack of long term assets
- Derivatives market under-developed, lack of hedging tools



How to manage 2.58 trillion insurance assets?

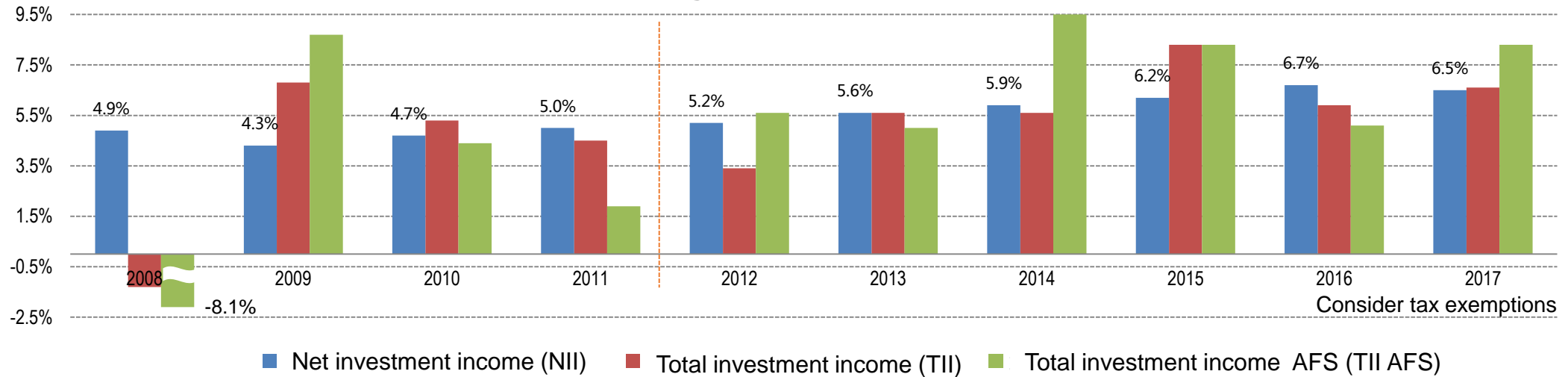
- Impact of IFRS9 on insurance assets?
- Future investment strategies for insurance assets?



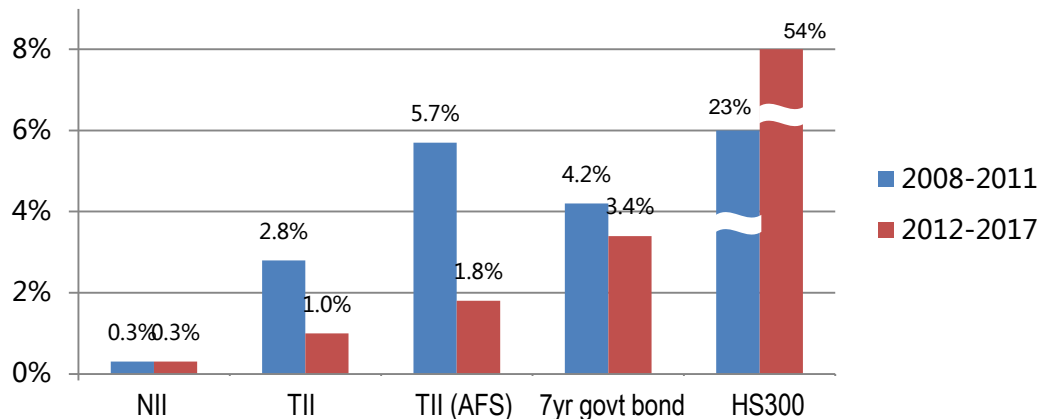
What is our expected future return?

◆ Our performance – steady growth in NII since 2012, largely reduced fluctuations (1/3)

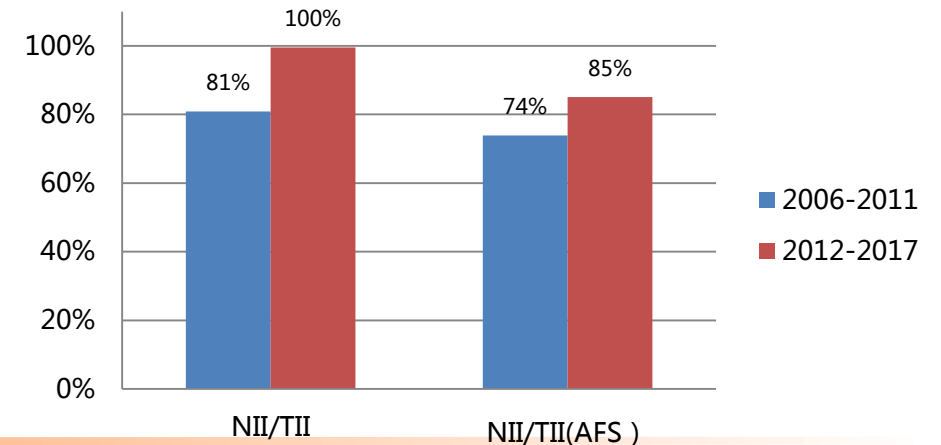
Annual returns in Ping An's insurance assets



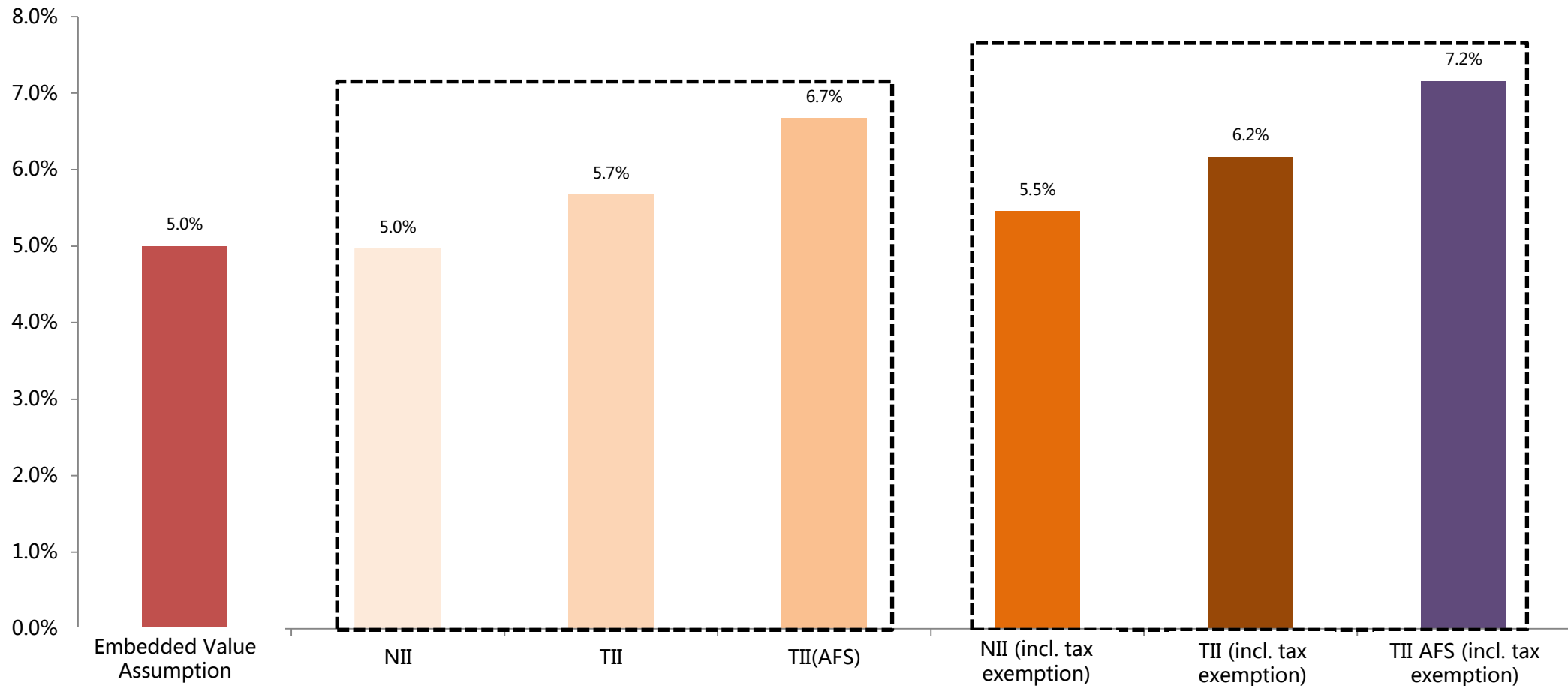
Significantly lower volatility in return vs. market & own history (2008-2011)



Significantly more predictable investment return



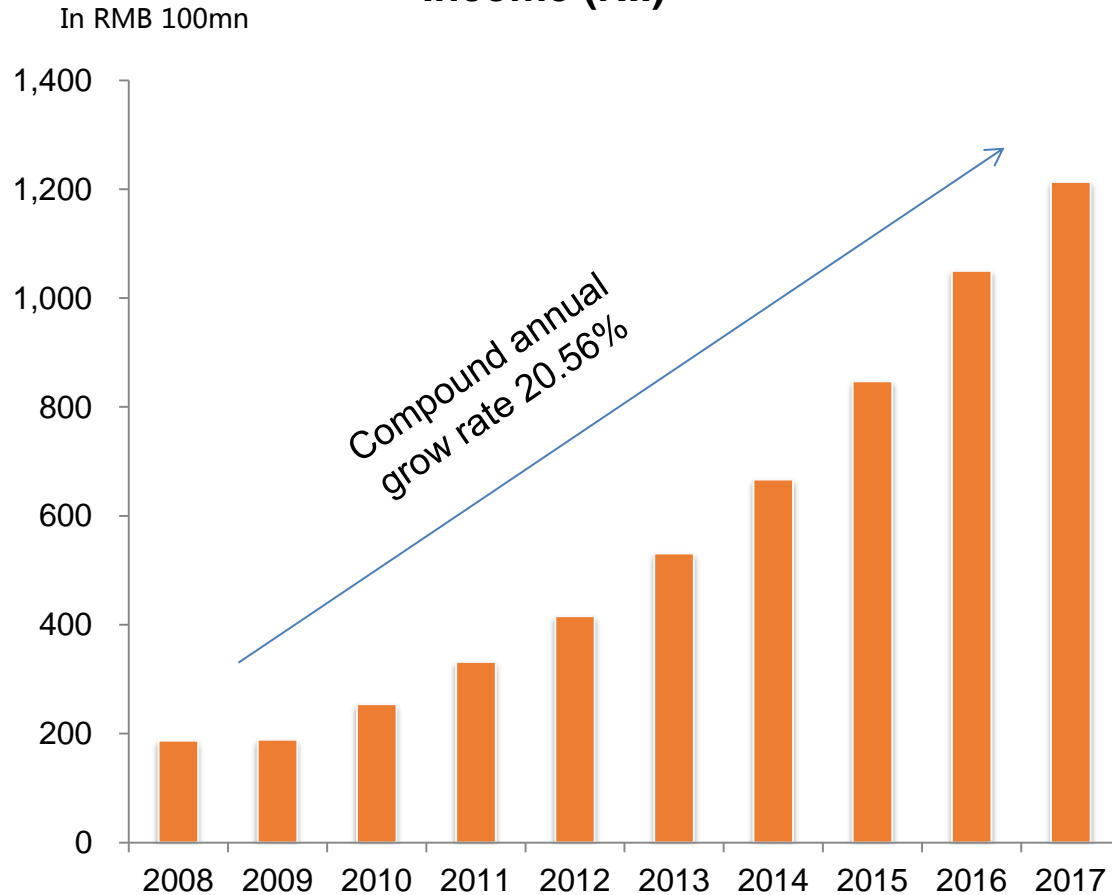
◆ Our performance – long-term investment return significantly exceeds the actuarial assumption (2/3)



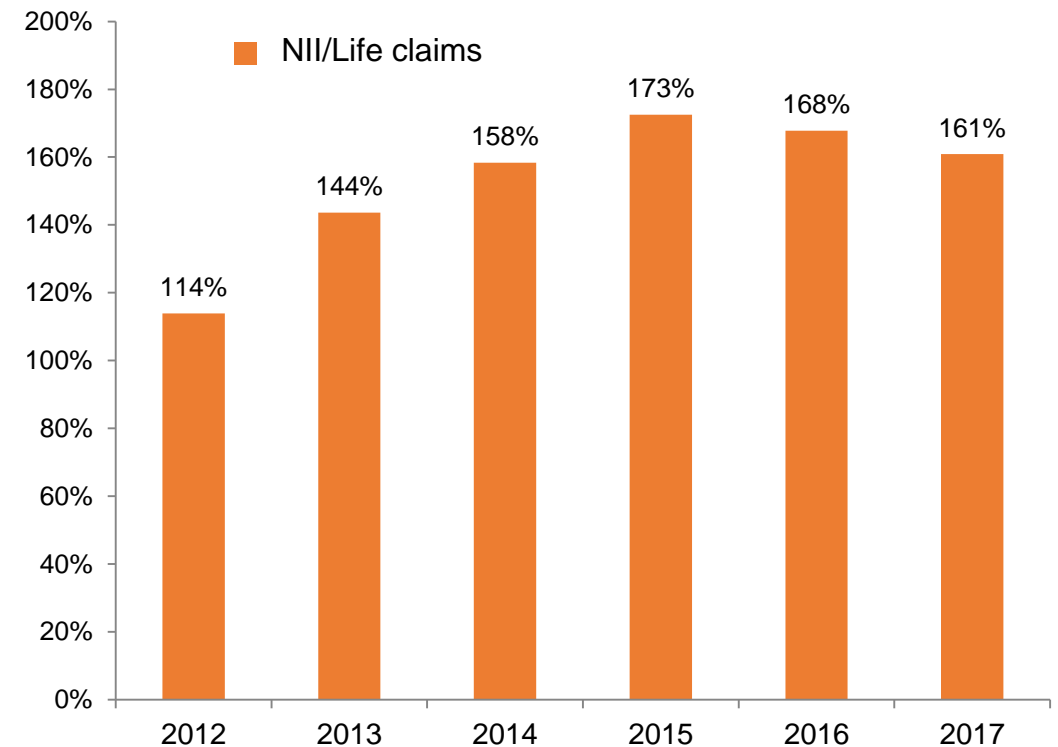
Note: The interest income earned on assets such as Chinese government bonds is tax-exempted. The exempted amount is an indirect investment income for insurance companies. The tax exempted figures above are unaudited estimations.

◆ Our performance – net investment income grows at 21% CAGR, exceeding life claim payments (3/3)

Steady increase in Net Investment Income (NII)



NII exceeds life insurance claims

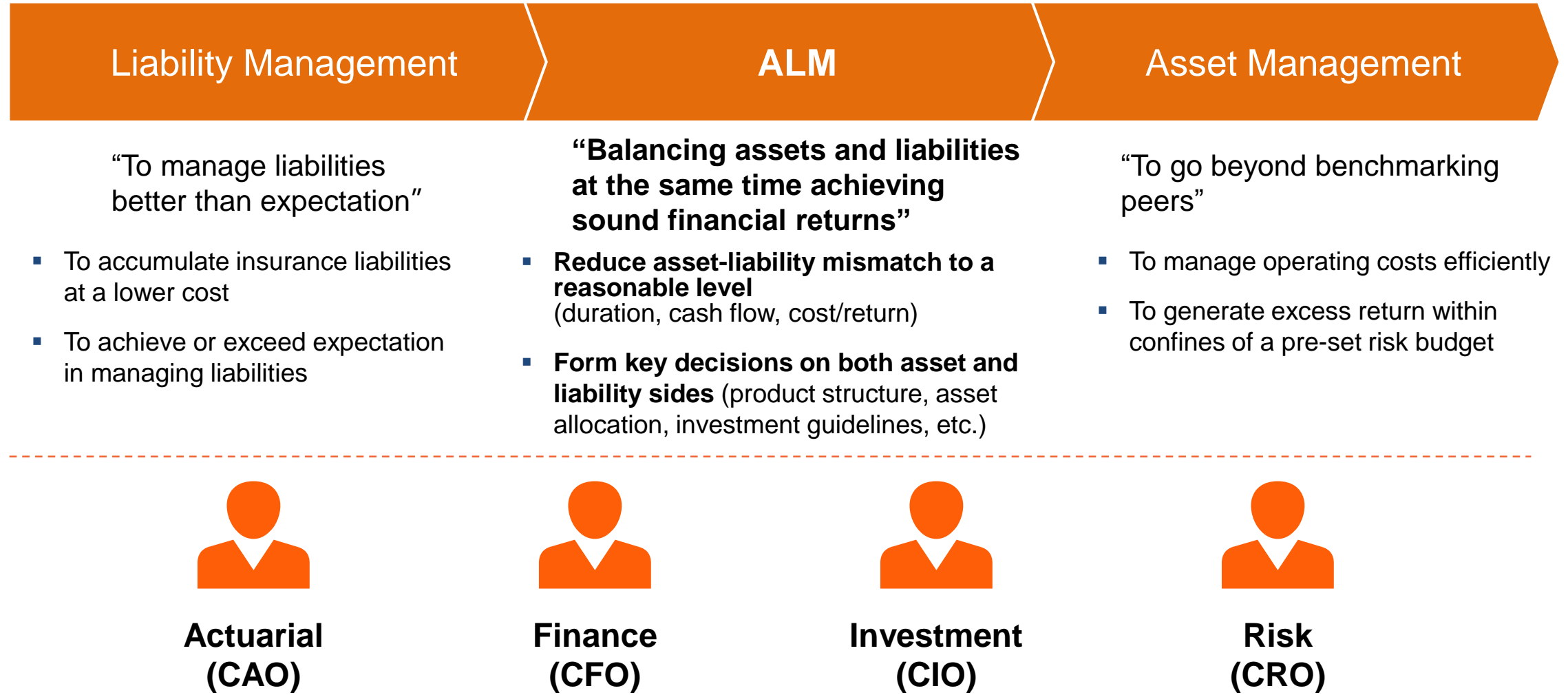


Note : NII-Net Investment Income

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1. Key investment challenges and our performance
- 2. Ping An's investment and risk management regime**
3. Dealing with key risks within insurance assets

◆ Investment procedure – insurance asset investment must adhere to core ALM principles (1/5)

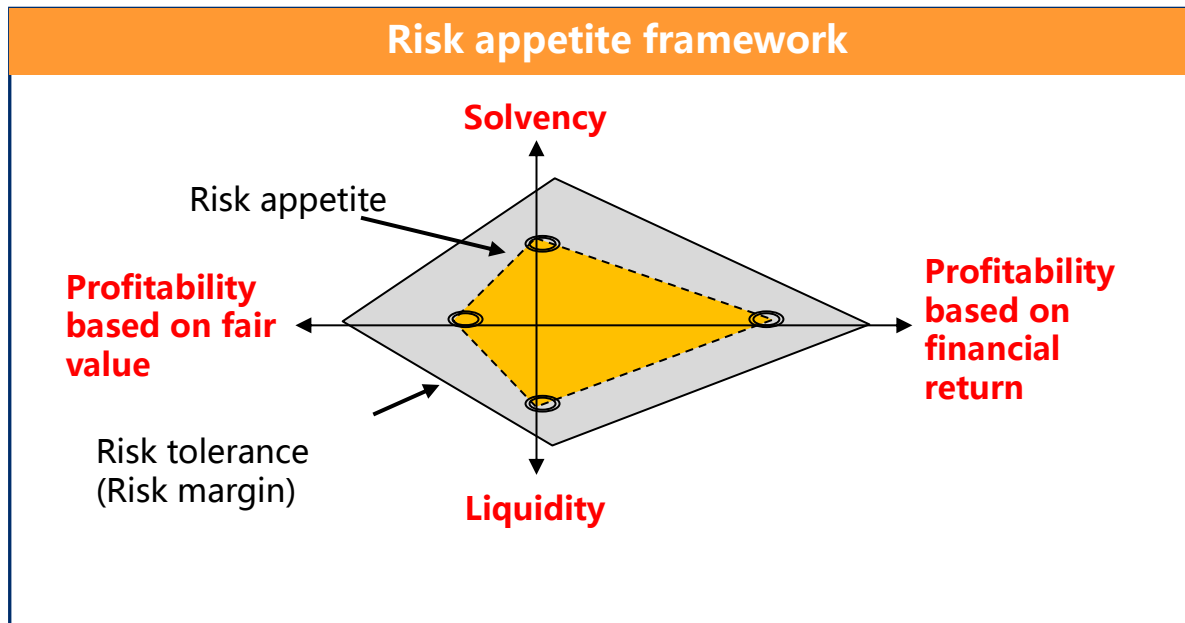


Note: Group Risk Management Executive Committee participates in the regular review of Strategic Asset Allocation.

◆ Investment procedure – multi-dimensional risk appetite: finance, actuarial, risk & investment (2/5)

Actuarial pricing constraint: investment return on fair-value basis uses the **actuarial assumed interest rate** as minimum return requirement, to ensure its portfolio generates sufficient return even under most adverse economic conditions; the investment objective is set via the minimum return requirement;

Finance cost constraint: in addition, investment return on accounting basis refers to **liability cost** as the minimum return requirement.



3 dimensional constraints

- Solvency risk constraint

Under stressed scenario, solvency ratio $\geq 120\%$

- Actuarial pricing consideration: fair-value return constraints

E.g. Life	Minimum return guarantee (%)	Product assumed interest rate (%)	Maximum probability of breaking through min. return guarantee (%)
Traditional	***	***	20
Participating	***	***	15
Universal Life	***	***	10

- Finance cost consideration: financial return constraints

E.g. Life	Average cost of liabilities (%)	Maximum probability of breaking through average cost (%)
Traditional	***	15
Participating	***	10
Universal Life	***	10

◆ Investment procedure – Strategic Asset Allocation via Monte-Carlo simulations and expert judgment (3/5)

Input

Investment constraints and asset data

Quantitative simulations

Generating the Efficient frontier using Monte Carlo simulations

Evaluation & Selection

Apply stress tests to shortlisted portfolios and form the distribution of returns. Finally select three different portfolios which fulfills all constraints at different risk levels.

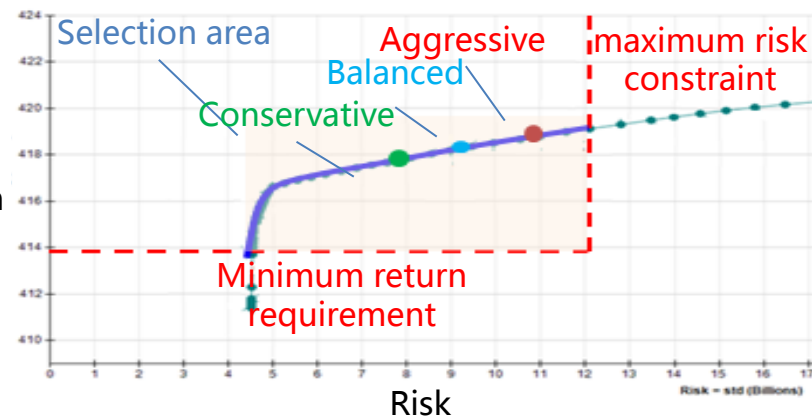
Minimum solvency under stressed scenario

Max. probability of hitting min. return guarantee

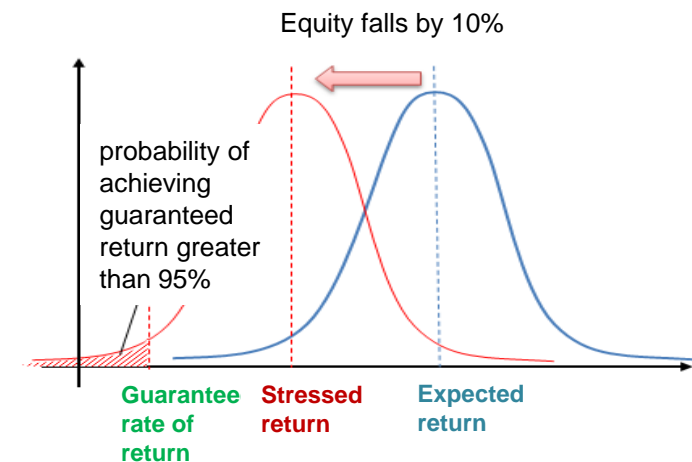
Expected return and volatility

Investment strategies

Return

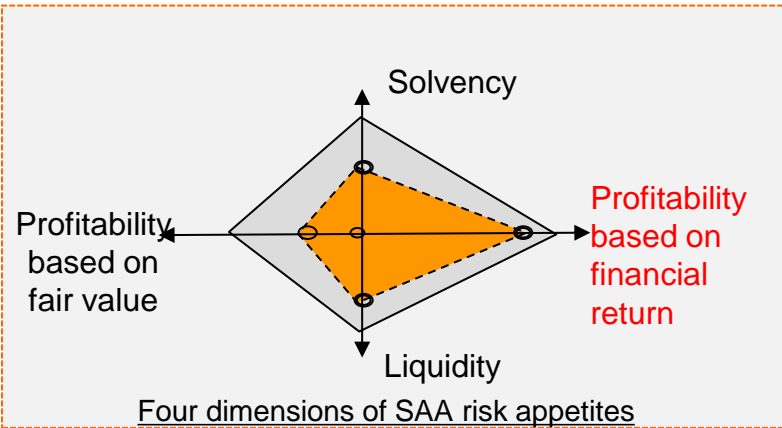


Selection on Efficient Frontier with stress tests

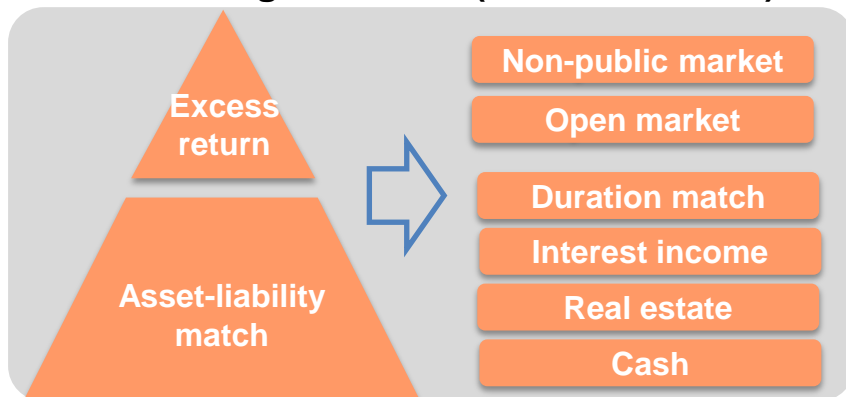


◆ Investment procedure – Strategic Asset Allocation (SAA) through adequate quantitative assessment (4/5)

Appetite, strategy, and IFRS9 asset class

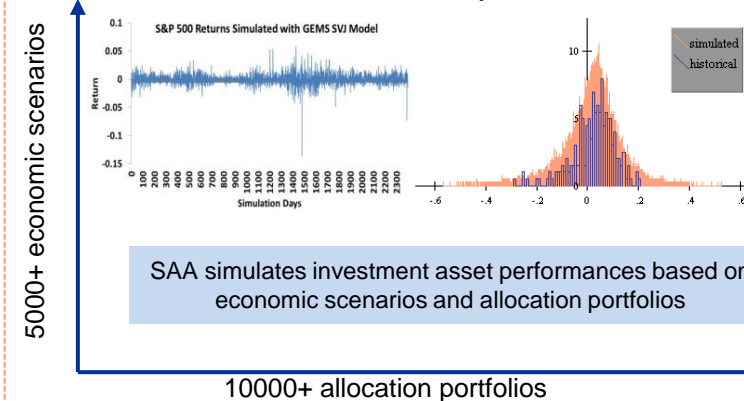


Six strategies of SAA (based on IFRS9)

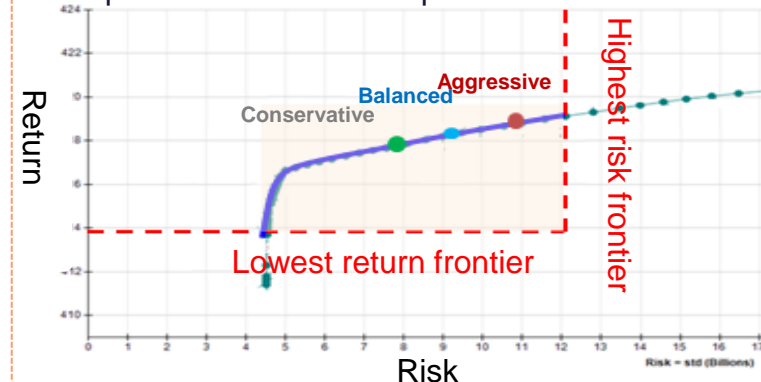


Ping An-Conning System

✓ Monte Carlo simulations to fully reflect risk distribution

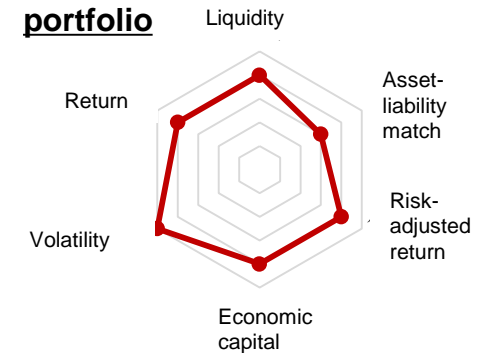


✓ Portfolio optimizer produces effective frontiers to optimize the risk-return portfolio

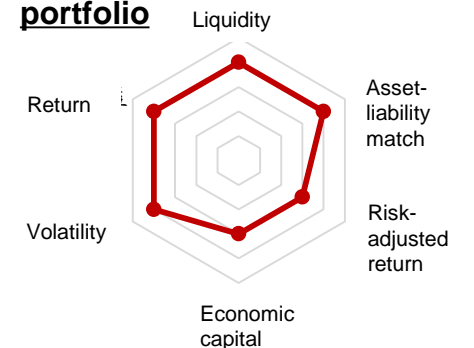


Multi-dimensional evaluation

Aggressive portfolio



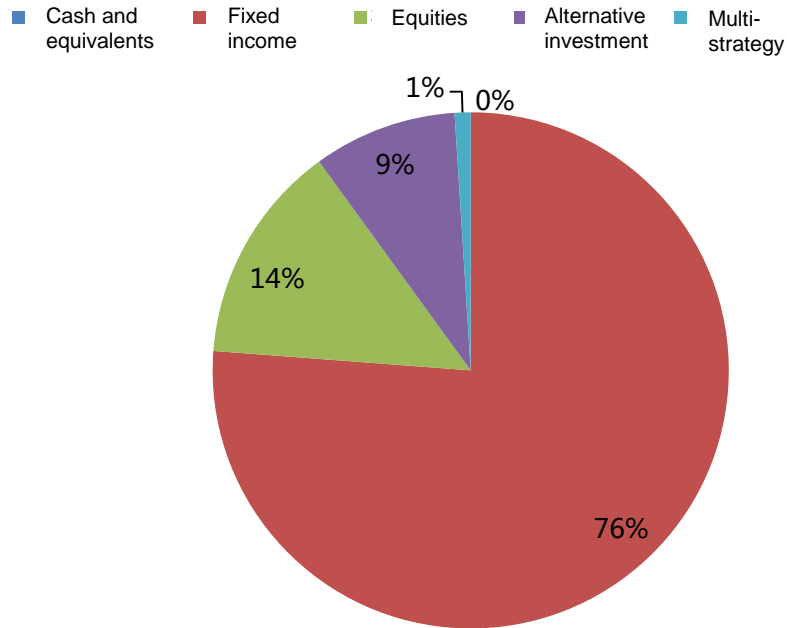
Balanced portfolio



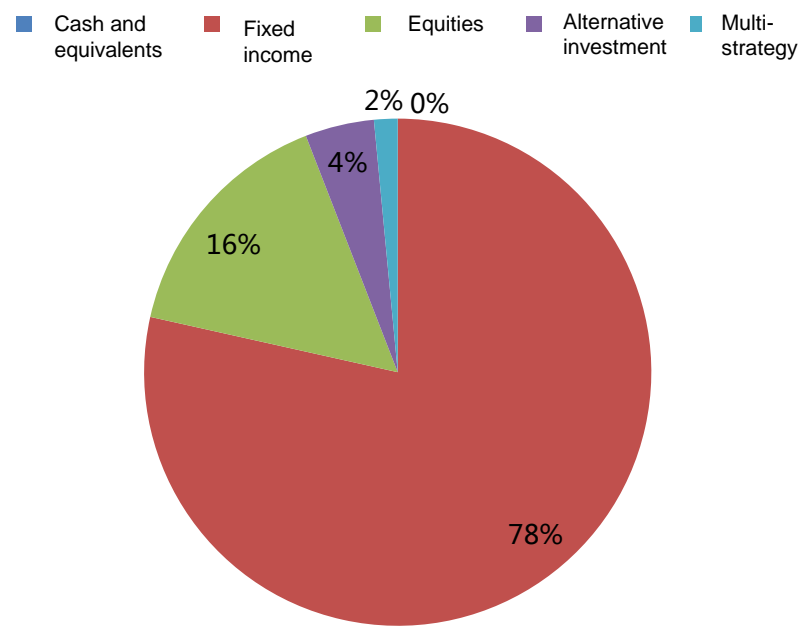
◆ Investment procedure – differentiated strategic asset allocation for different insurance accounts (5/5)

Example

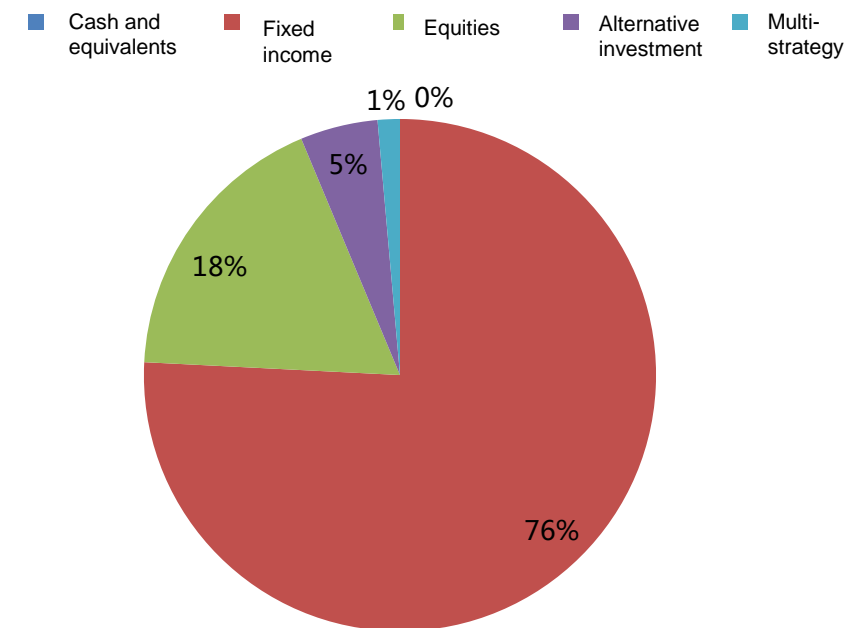
Traditional Life



Participating



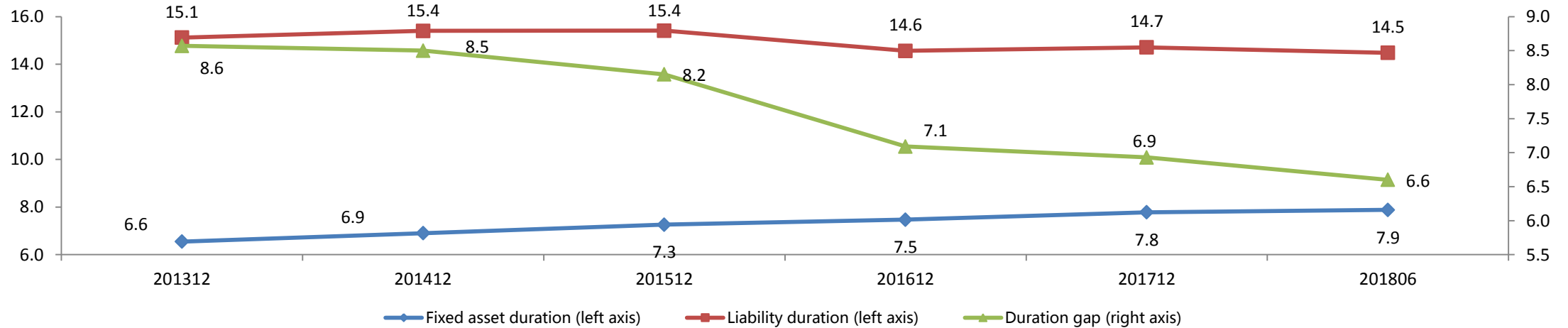
Universal



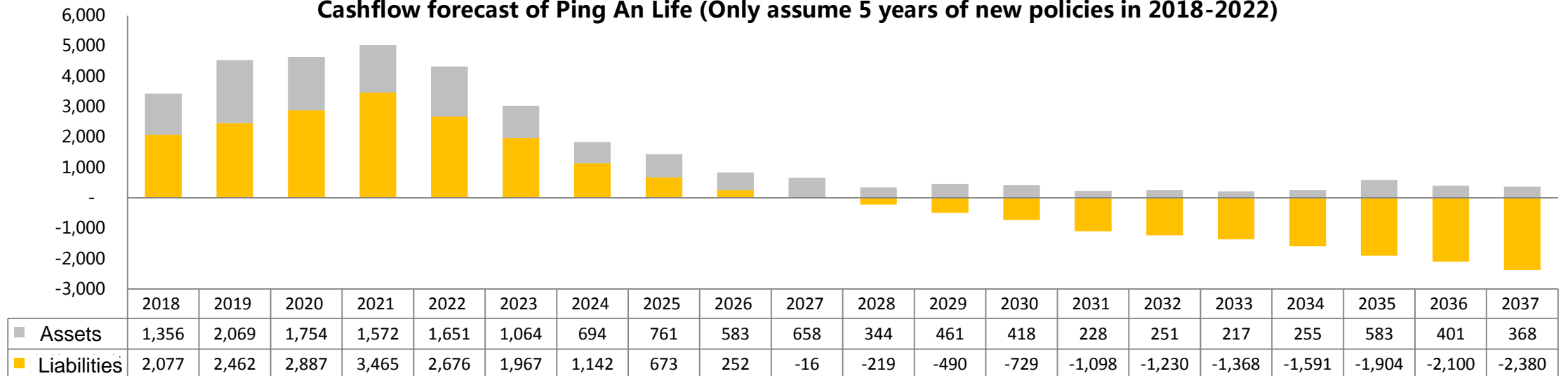
Note : Equity investments include preferred stock; Alternative investments include PE and real estate ;

◆ Our achievement – a narrowing asset-liability mismatch, net-outflow may only occur in 2029 (1/2)

Asset-liability duration gap continues to reduce since 2013

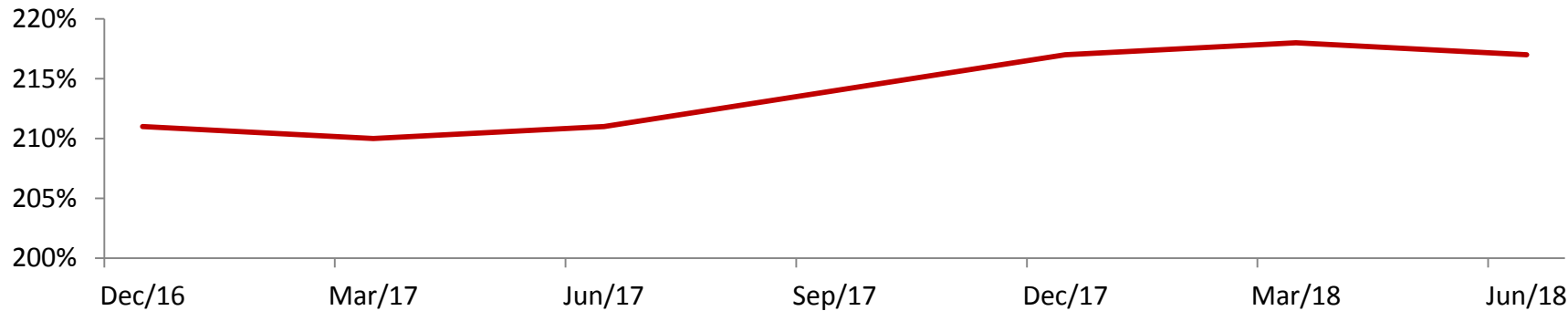


Cashflow forecast of Ping An Life (Only assume 5 years of new policies in 2018-2022)

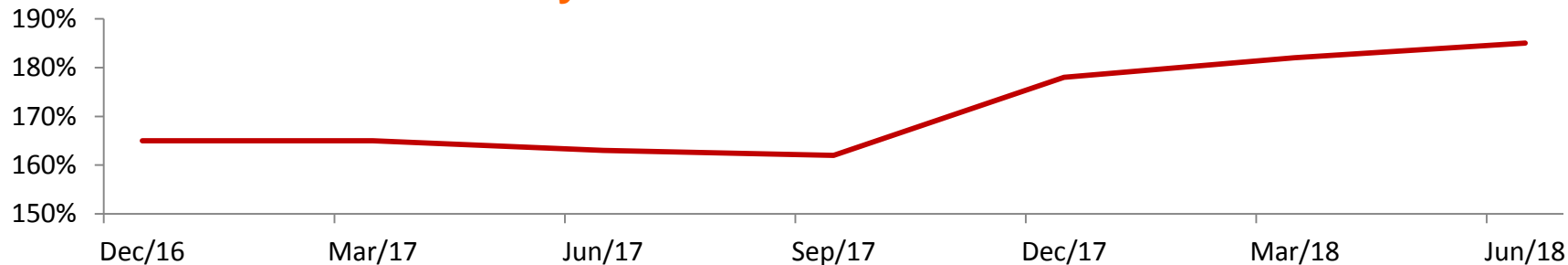


◆ Our achievement – highly solvent, even under severe economic conditions (2/2)

C-ROSS Solvency Ratio maintained at above 200%



Under extreme scenario: C-ROSS Solvency Ratio still maintained at above 150%

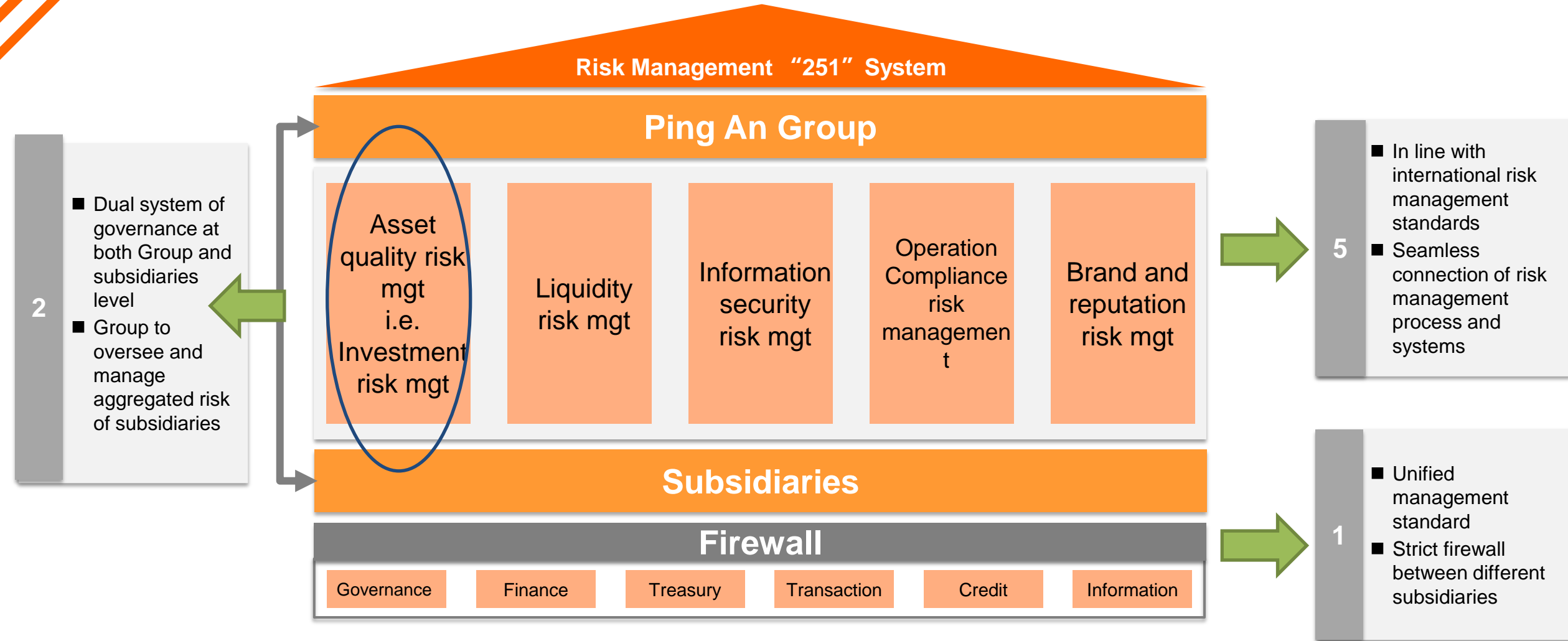


Ping An's 2018 Stress Test (extreme scenario)

HS300 index (CSI 300)	-42%
1-yr govt bond yield	-112bp
10-yr govt bond yield	-98bp
Credit default rate	1.91%
Real estate price	-27%
USD/RMB spot rate	-9%

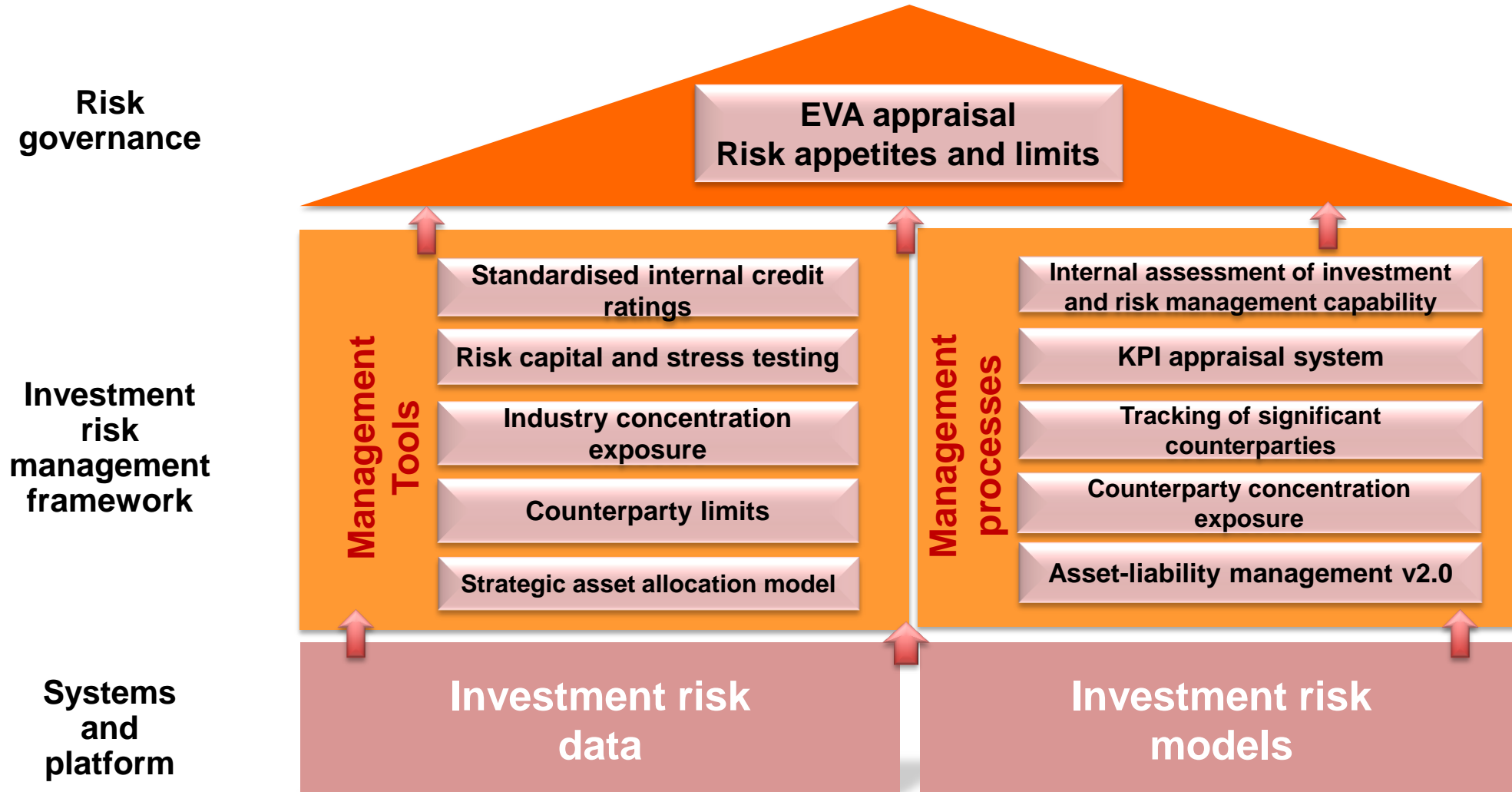
.....

◆ Investment risk mgt framework – the only Chinese institution in G-SIIs, aligned with international stds(1/2)

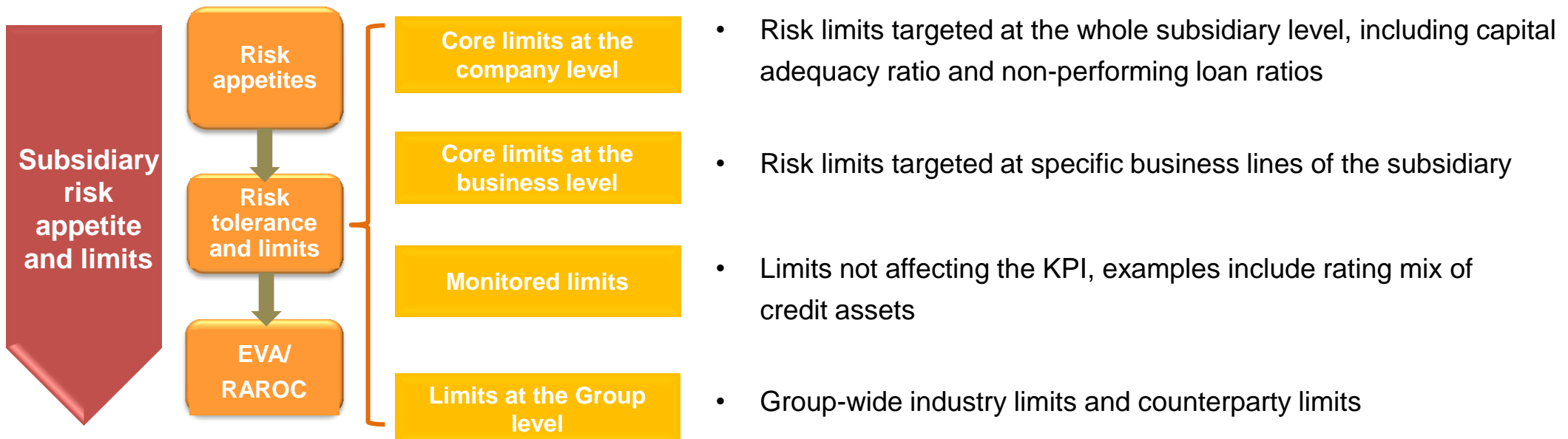
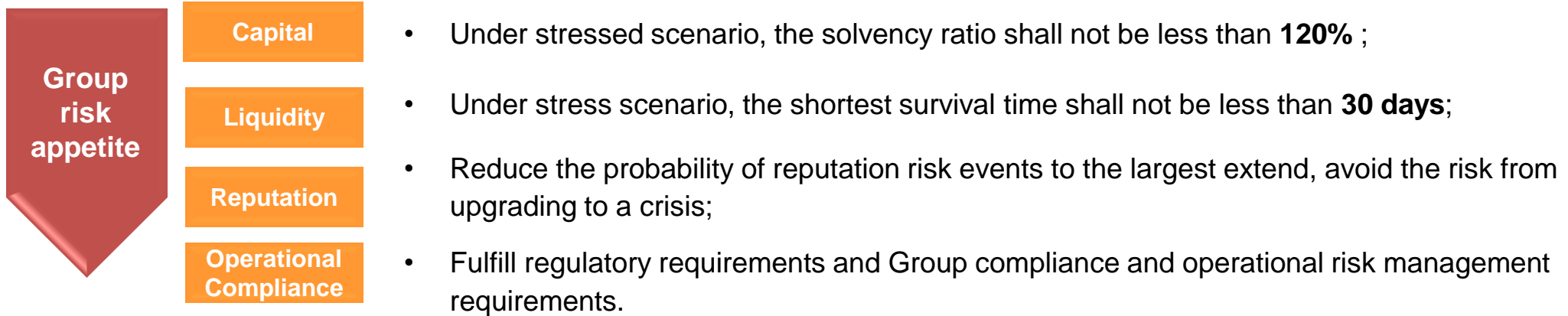


Note: Professional committees at the Group level participate in the review and assessment of major risks. This includes the Group Risk Management Executive Committee and the Group Investment Management Committee.

◆ Investment risk mgt framework – a sound risk mgt system that promotes a balanced risk and return (2/2)



◆ Investment risk mgt process – annual risk budgeting and 4-category limits after adequate stress tests (2/8)



◆ Investment risk mgt process – Example: risk limits set by insurance subsidiaries (3/8)

Core risk limits at company level

Subsidiary	C-ROSS Solvency Ratio
PA Life	≥150% under stressed environment (“stressed”)
PA P&C	≥150%, stressed
PA Pension	Insurance side: ≥150%, stressed Third party side: Credit risk capital ≤58m; Market risk capital ≤29m
PA Health	≥150%, stressed

Note: The regulatory solvency requirement is ≥100% under normal condition.

Core risk limits at business lines

Example: The ceiling limit of asset allocation of each category in each account

Subsidiary	Account	Equity %	Corporate bond %	Alternative %	Real Estate %	Private Equity %
PA Life	Traditional	18.5%		9.0%		
	Participating	22.3%		6.0%		
	Universal	21.3%		6.0%		
PA P&C	Traditional	15.0%	30%	45%	30%	10%
PA Pension	Traditional	23%			30.0%	
	Participating	20.6%			30.0%	
	Universal	20.4%			30.0%	
PA Health	Traditional	15.0%	30%	20.0%	0.0%	0.0%

Example

◆ Investment risk mgt process- Industry concentration exposure management covering 39 industries (4/8)

Management Process

Industry risk evaluation

Industry research
(qualitative)

External data
(quantitative)

Scorecard

Industry
risk
ranking

exposure
model

Industry
concentration
exposure

control
mechanism

High-risk industry
limits
(strict control)

Other industry
exposure limits
(soft control)

E.g. Coal industry

Qualitative : ... due to latest environment policies, over-capacity and cyclical factors, the score is relatively **LOW** ...

Quantitative : ... The total liabilities of industry in 2017 is around 4 trillion, asset-liability ratio is as high as 67.8%, profitability is poor, high default rates...

Ranked
bottom
10%

Limit set
at certain
bn RMB

Defined as a high-risk industry, apply strict control, with a limit of certain bn RMB -> Exposure reduced by 22.6% after control

Example

◆ Investment risk mgt process – Counterparty limits to suppress high risk counterparty exposures (5/8)

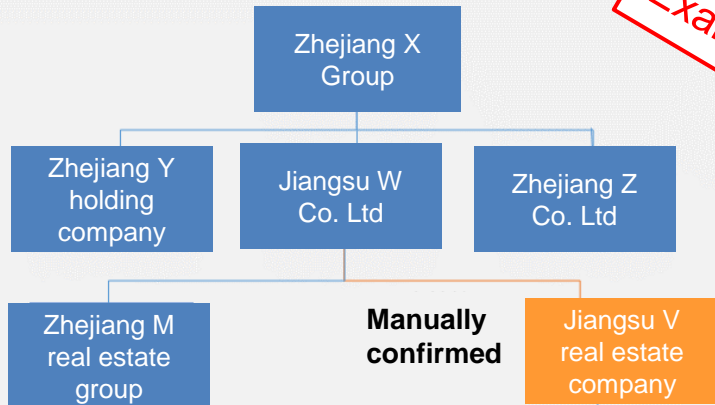


‘Counterparty’ = a group of related corporate clients

Equity control enterprise
Senior management control enterprise
Related-party guarantee enterprise
...

1. Identify counterparty and related parties

Example



■ Equity control relationship
■ Senior management control (manual confirmation)



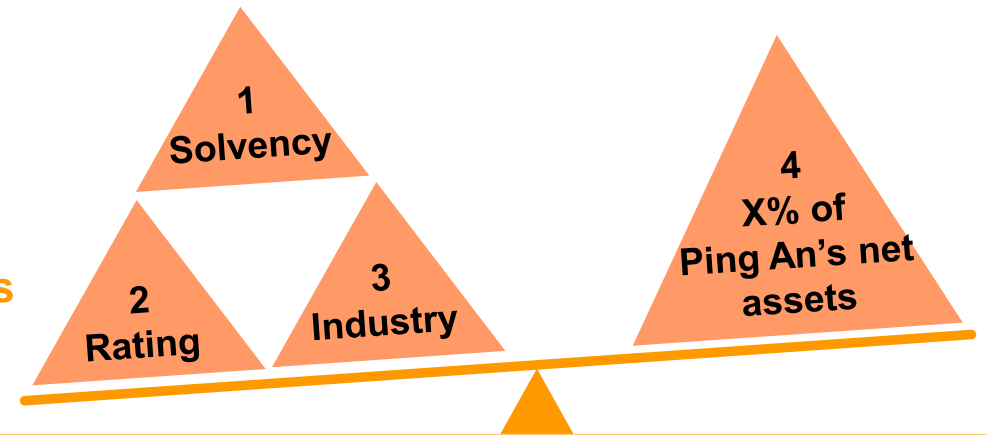
2. Establish counterparty limit

Two dimensions

Counterparty's risk condition

Ping An's risk tolerance

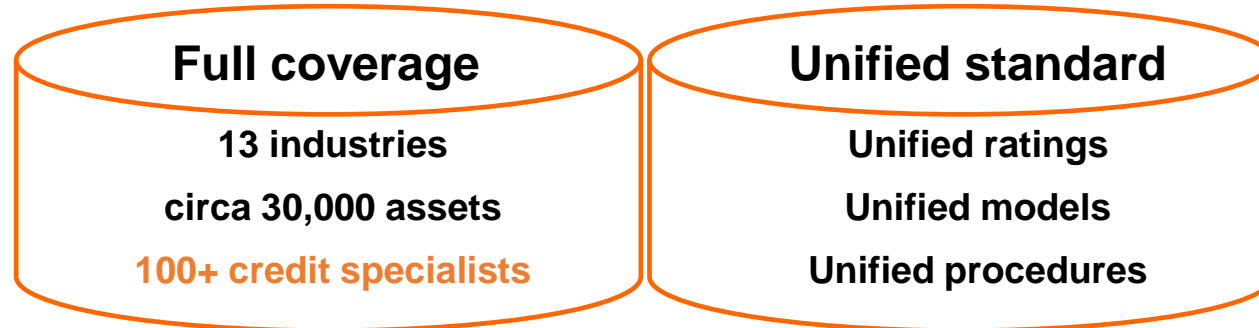
Four factors



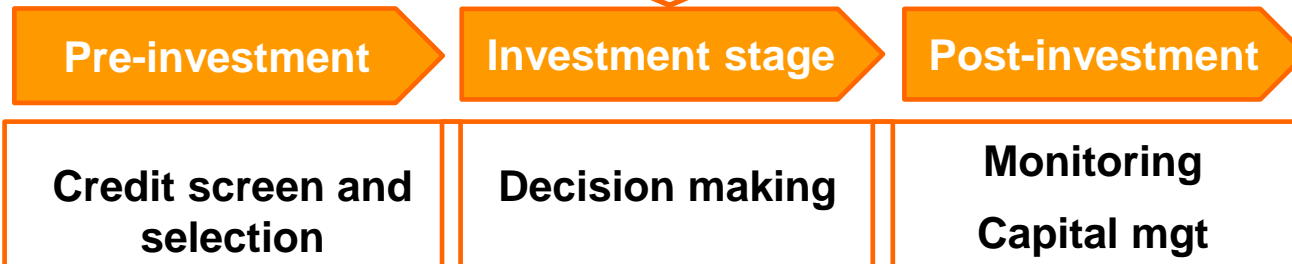
One limit for each counterparty

Change Counterparty limit for Zhejiang X Group = RMB 8.0 billions

◆ Investment risk mgt process – internal credit rating developed since 2003 (6/8)



Standardised ratings across 10 subsidiaries



Wide
usage

Regular
review

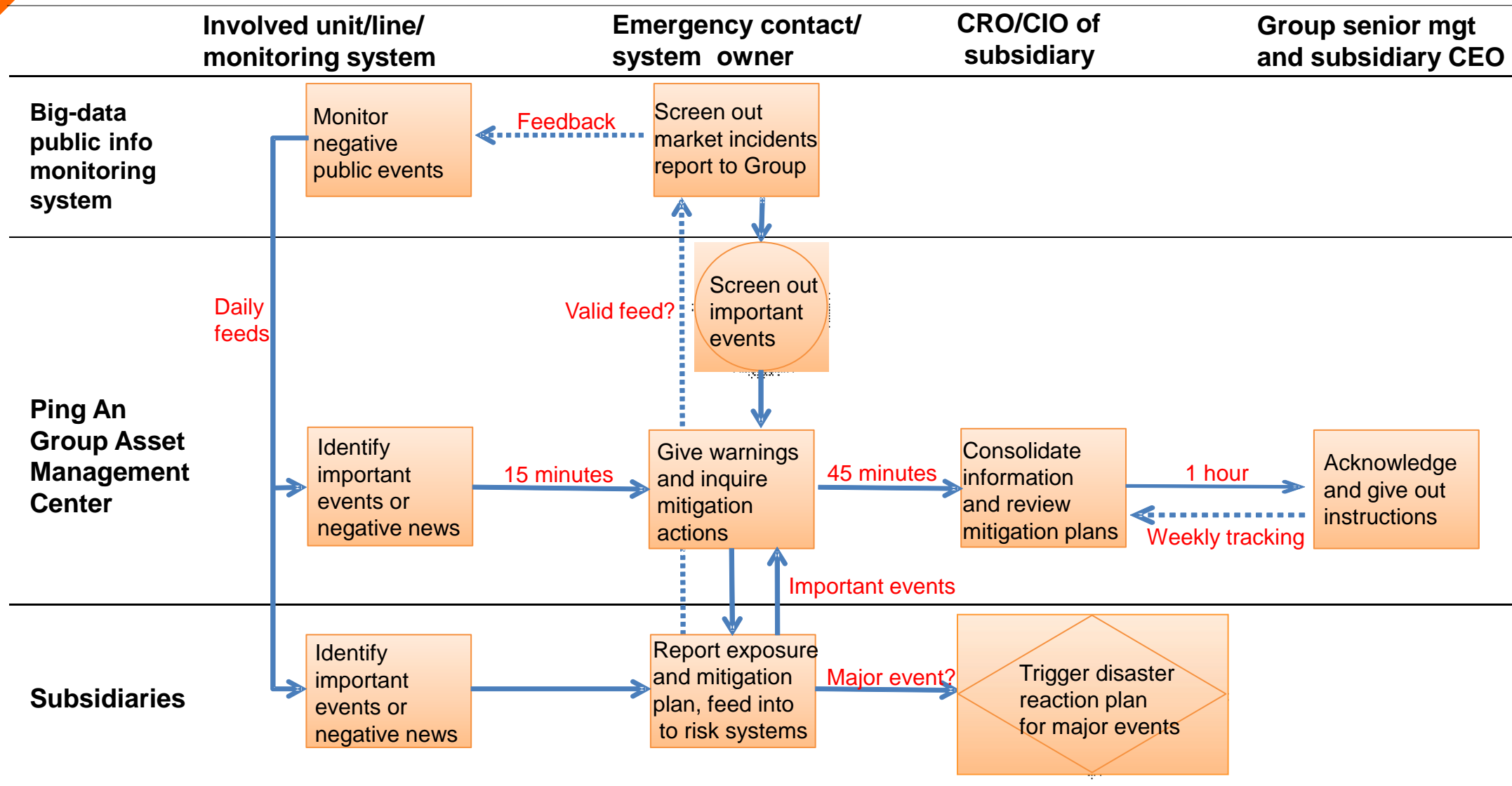


Internal VS. International standards

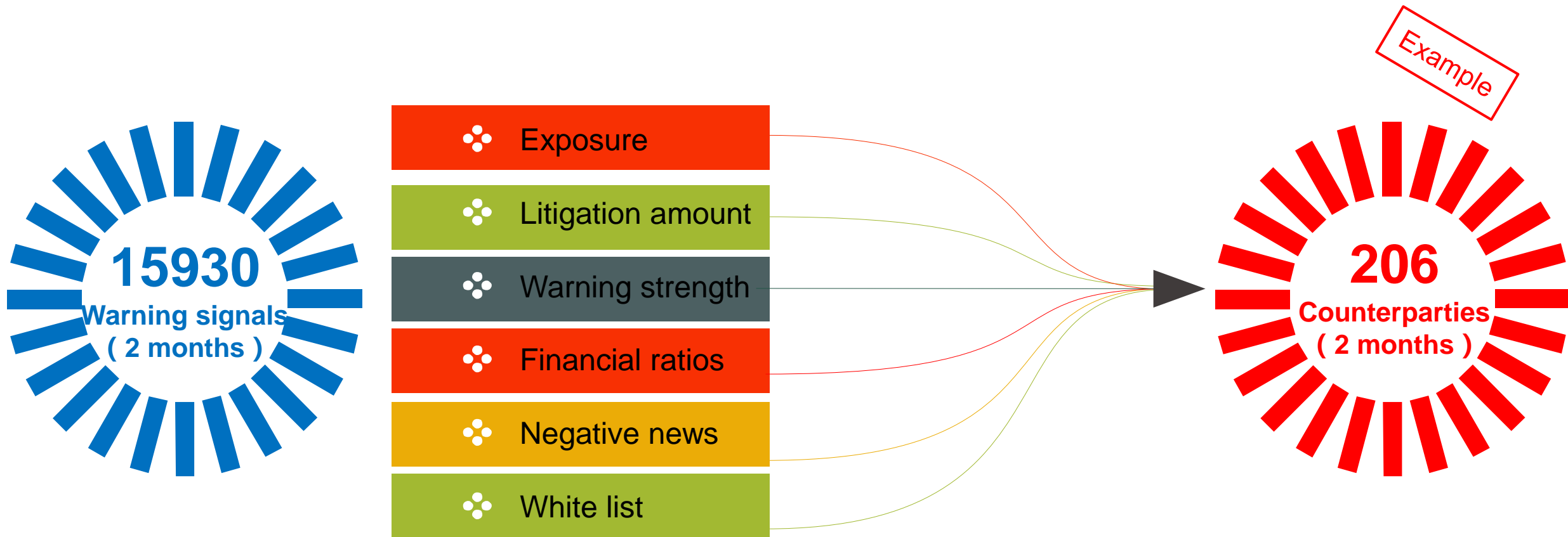
Ping An	S&P	Moody's
AAA	AAA	Aaa
AA	AA+~A	Aa1~A2
A	A-~BBB	A3~ Baa2
BBB	BBB-~BB	Baa3~ Ba2
.....

Example

◆ Investment risk mgt process – a 2-hour quick response through ‘grey-list’ & big-data early warning system (7/8)



◆ Investment risk mgt process –16k warning signals in two months via big-data, traced 206 counterparties (8/8)



◆ Our achievement – 0 default in non-standard assets,
0 default in corporate bonds in H1 2018

0 default
in non-std
assets

The **RMB 360 billion** non-standard assets invested by the insurance funds account for **14.1%** of the entire portfolio, **so far there is no default.**

0 default
in corporate
bonds

The proportion of corporate bond invested by the insurance funds is **6.7%**, with the amount of over **RMB 170 billion**. **No default during the first half of 2018.**

◆ Investment management system – the world leading Ping An-Conning asset allocation system (1/2)



Economic Scenario Generator (ESG)

- 10,000+ Monte Carlo simulations of the economy, each generating a different set of asset returns and cashflow



Asset-liability simulator (Simulation)

- Full path simulation, work out the investment return, duration mismatch and cashflow at each time step under each economic scenario.



Investment risk database (Database)

- Collecting all internal investment and risk management related data, files and market data to support real-time monitoring and warnings

- ✓ 30+ asset models
- ✓ 100+ financial parameters
- ✓ 3 000+ financial assets data
- ✓ 10 000+ economic scenarios
- ✓ 60 000+ simulation nodes
- ✓ 200 000+ statistical data
- ✓ 1 000 000+ results
- ✓ 60min to finish all calculations above
- ✓ 313 data fields ; 277 products

Database and Query Tool



- Storing all computations and results
- Large amount of statistics for each variable

Optimisation Tool



- Generating the efficient frontier
- Optimising according to multi-dimensional requirements

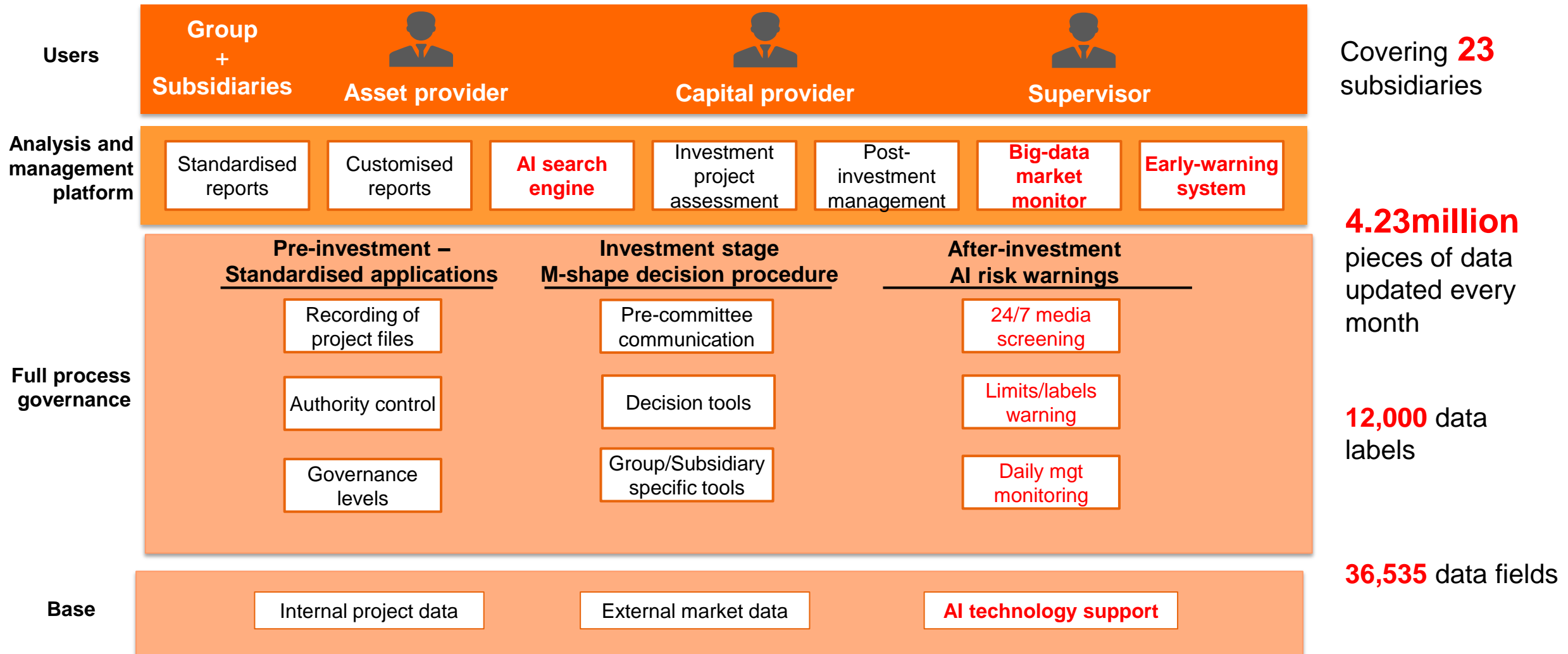
remote iPad application (Investment Analysis)



- Verifying group exposure in 10 minutes
- Asset allocation analysis, investment risk scenario tests and stress tests

◆ Investment management systems – from a traditional accounting system to a state-of-art smart platform (2/2)

Ping An's investment management platform



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1. Key investment challenges and our performance
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- 3. Dealing with key risks within insurance assets**
 1. Investment management strategies
 2. Non-standard assets investment risk management
 3. Corporate bond investment risk management
 4. Real estate investment risk management
 5. Equity investment risk management
 6. Embracing the challenges posed by IFRS9 standard
 7. Embracing the Asset-Liability Mismatch

◆ Investment outlook: Global financial asset return in 5-10yrs could be lower than the average of past 10-20yrs

1

“NII+”Strategy —— Create a cushion for insurance investments

Over the past decade, the compounded growth rate of NII reached **20.56%**, hundreds of billions of cashflow provided solid support to Ping An’s growth. The coverage ratio of NII to life compensations has also increased over the past five years.

2

Fixed Income investment strategy —— Extend asset durations + seek tax exemptions

Actively purchase long duration assets. We hold over RMB 575bn 20yrs+ bonds, average duration **14.75 years**. Over the past five years, asset-liability mismatch has reduced by **2 years**. Over the past ten years, tax-exempted assets contributed an extra by **50 bps** of investment returns per annum.

3

Real estate investment strategy —— “Cornerstone” of long-term return

Allocation to real estate investments to increase from 2% to **10%**, exploring new types of real estate investments.

4

Equity investment strategy —— Focus on key holdings, making use of good external managers

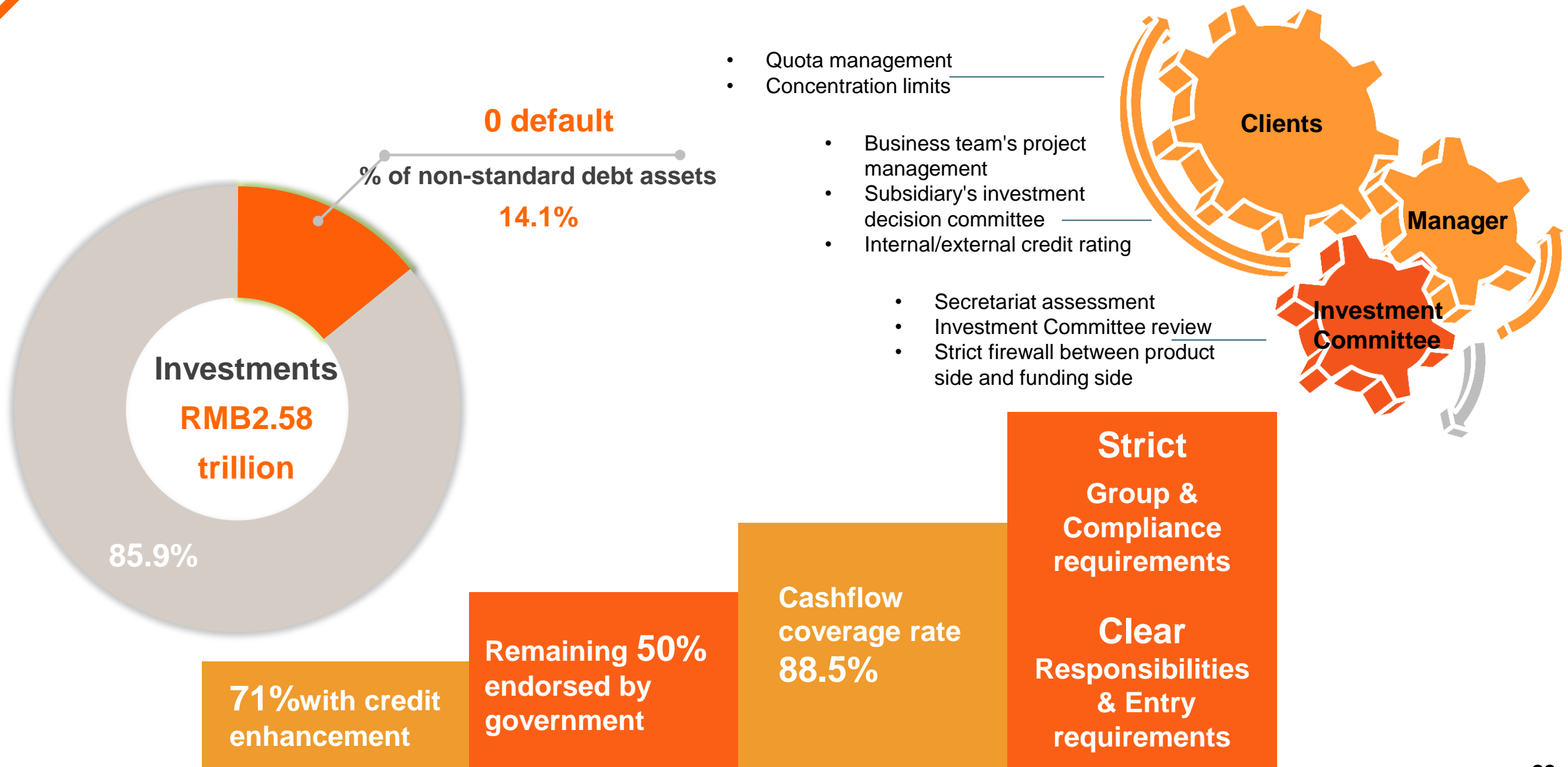
Concentrate on in key holdings. Based on our cost of buying, we predict the dividend ratio by HSBC for 2018 is up to **5.9%**, ICBC is **5.2%**, and Country Garden as much as **22.7%**; we plan to increase the mandate size to external managers.

5

Overseas investment strategy —— Adequate diversification, with managed FX risks

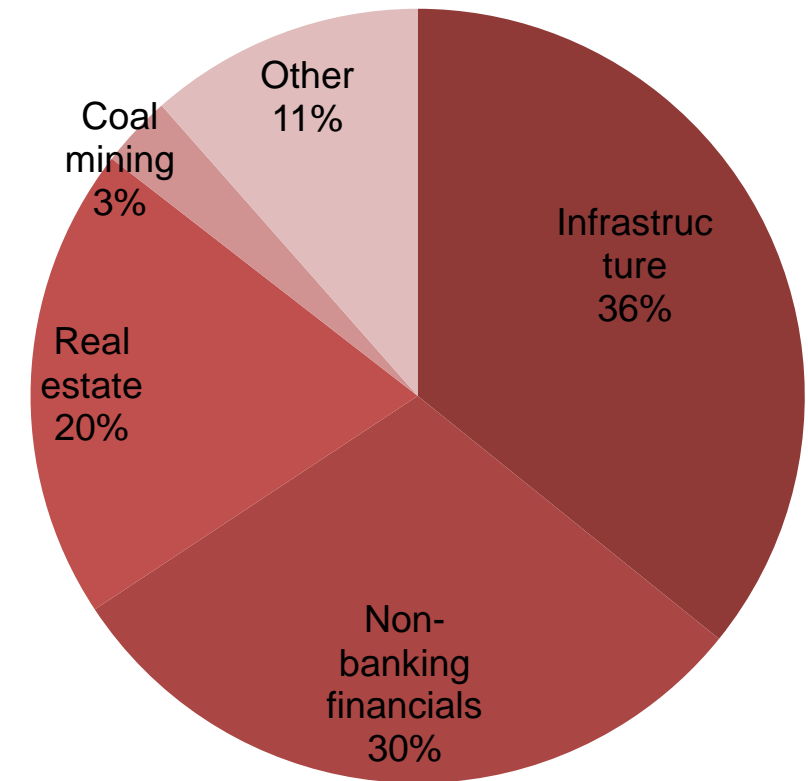
Non-capital market investment will be mainly through entrusted investment.

◆ Non-standard debt credit risk mgt – multi-stage assessments, credit enhancement, govt credit (1/3)



◆ Non-standard debt credit risk mgt – infrastructures and non-banking financials have lower risks (2/3)

	Investment proportion (%)	Nominal investment income (%)	Remaining maturity (Years)
Infrastructure	35.8	5.82	4.82
Highways	17.7	5.93	5.85
Utilities	6.1	5.53	2.90
Infrastructure and industrial parks	5.5	5.77	4.58
Other (Water, Environmental, railways	6.5	5.84	4.01
Non-banking financials	29.9	5.70	4.25
Real estate	19.8	6.12	2.62
Coal mining	3.0	6.16	2.41
Other	11.5	5.78	5.26
TOTAL	100.0	5.85	4.22

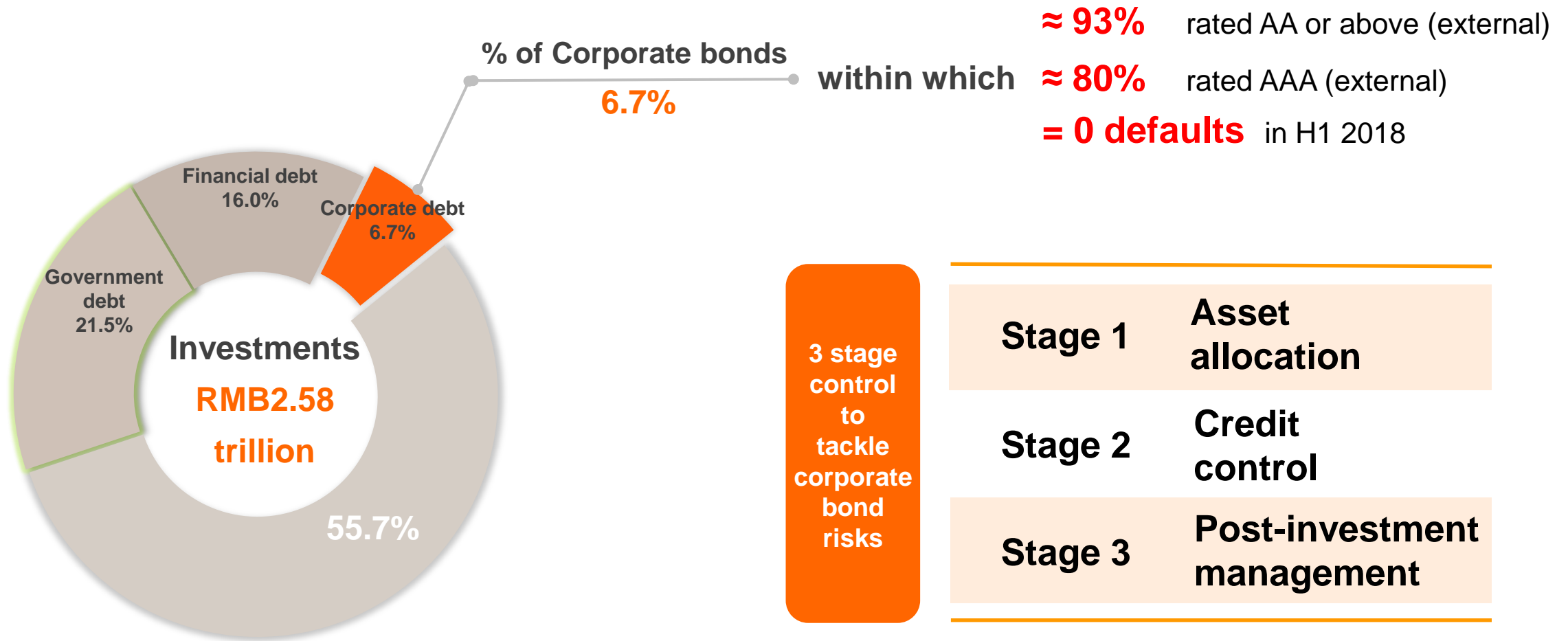


Note: (1) Non-standard debt assets: refer to debt assets other than standardised ones ;
 (2) The data includes the asset-backed plans, amounting to RMB35bn compared with the total amount of debt plans and trust plans;

◆ Non-standard debt credit risk mgt – strict regulations strengthens product security (3/3)

- Targeting the risk in debt plans, the CBIRC has formulated very strict regulations on initiating and issuing debt plans, which greatly reduced the credit risk of debt plans. Typical requirements are listed as follows:
 - **Issuer** : Generally should be “insurance assessment management companies”.
 - **Paying party** : **0** bad records (e.g. no defaults)
 - **Fund provider** : Insurance funds are NOT allowed to invest in product issued by institutions punished by the regulator over the **past 3 years** (including debt pans and trust plans)
 - **Credit enhancement** : the transaction structure should have effective credit enhancement, such as:
 - Type A: jointed-liability guarantee provided by state-owned commercial banks or publically-listed banks;
 - Type B: the guarantor must fulfill multiple conditions such as **net assets no less than RMB 15bn**, **guaranteed amount cannot exceed 50%** of its net assets etc. if the guarantee is provided by the parent company or the effective controller of the paying party, the guarantor’s net assets should not be less than 1.5 times that of the paying party If the guarantor ;
 - Type C: guarantee provided by pledge or collateral of no less than **2x** the fair value of the debt;

◆ Corporate bond credit risk mgt – low allocation, high ratings, strict controls (1/2)



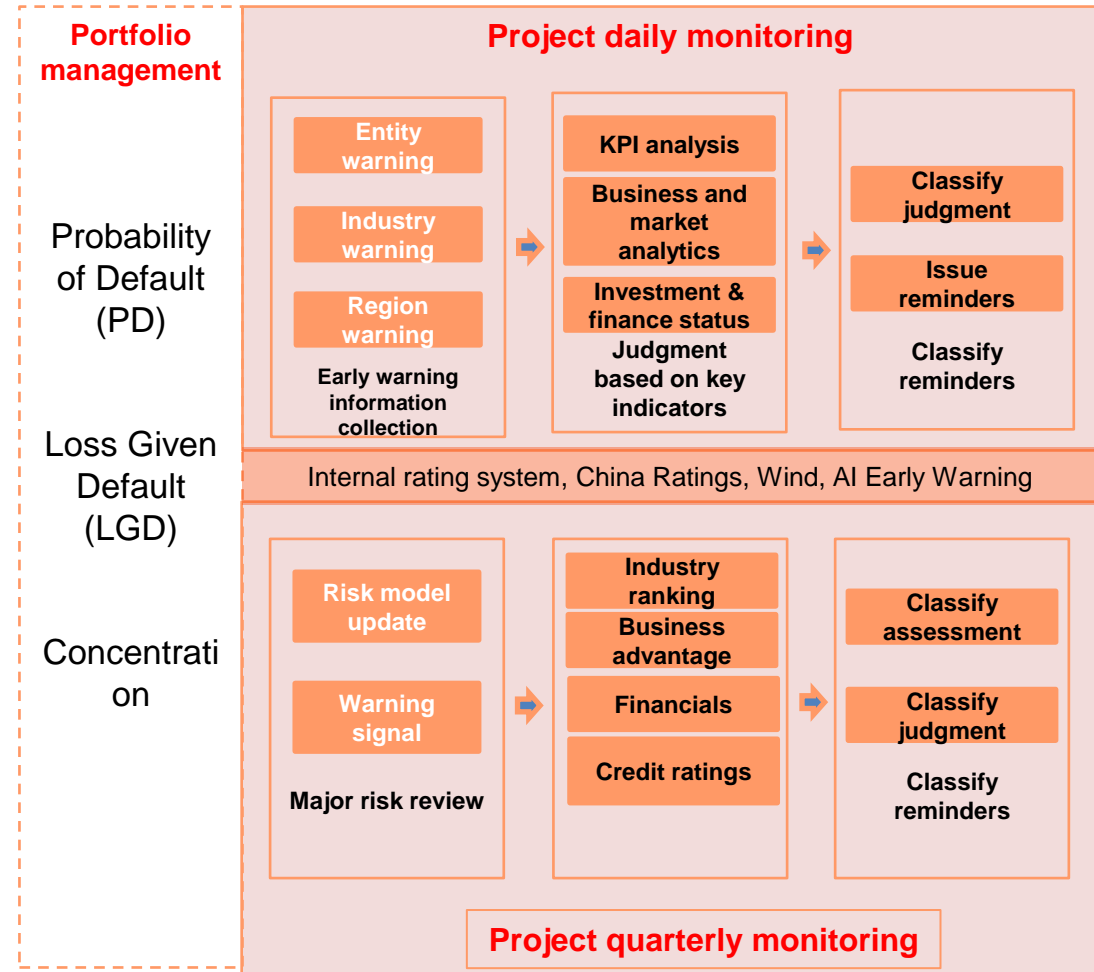
Note: Financial bonds refer to securities issued by banks and non-bank financial institutions in accordance with legal procedures and agreed to repay principal and interest within a certain period of time.

◆ Corporate bond credit risk mgt – Rating, monitoring, early warning and quarterly full reviews (2/2)

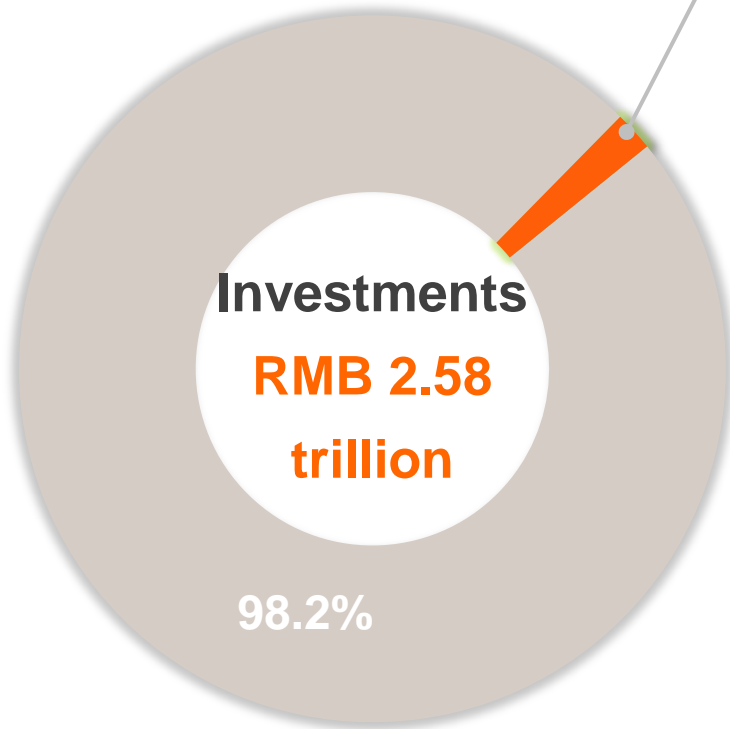
Pre-investment



Post-investment



◆ Real estate contraction risk mgt – relatively low % of insurance assets, with few key focuses (1/3)



% of real estate assets

1.8%

- ◆ Office building RMB 38.3bn, **92% located at tier 1-2 cities**
- ◆ Shopping malls RMB 5.1bn
- ◆ Logistics RMB 5.3bn



New real estate	Reference area	Investment horizon	Expected IRR
Retirement real estate	Around cities	> 20 years	10~15%
Industrial park	Non-core areas in tier-1 and tier-2 cities	10 years	7%~9%
Long-term rental apartment	Most of them are within one hour of distance from core business districts in tier-1 cities and core tier-2 cities	5-10 years	7%~8%
City renovation	Urban central area, shanty town, old commercial area, industrial area, etc.	5-15 years	10~20%
High-speed railway new city	Along railways	5-15 years	IRR 12-15% for parts of the sales, and some parts may see IRR>20% due to the high turnover rate

◆ Real estate concentration risk mgt – multiple strategies to produce stable returns (2/3)

Capital	Land reserves, direct purchase Infrastructure and utilities investment Equity investment
Resource	Integrate government and industry resources with Group resource: capital, brand, management, healthcare and pension etc.
Development	Infrastructure development Utilities development Office building development
Management	Industrial park operation, industry support Business innovations: leasing, securitisation, REITS, PE funds



Stable cash yield to enhance the NII strategy

Natural hedge against inflation in the long run

Partnership with experienced developers to preserve property values

◆ Real estate concentration risk mgt – initial selection, mitigation and post-investment warnings (3/3)

Pre-investment selection

Credit rating : basic criteria
Region, industry and financial ratios

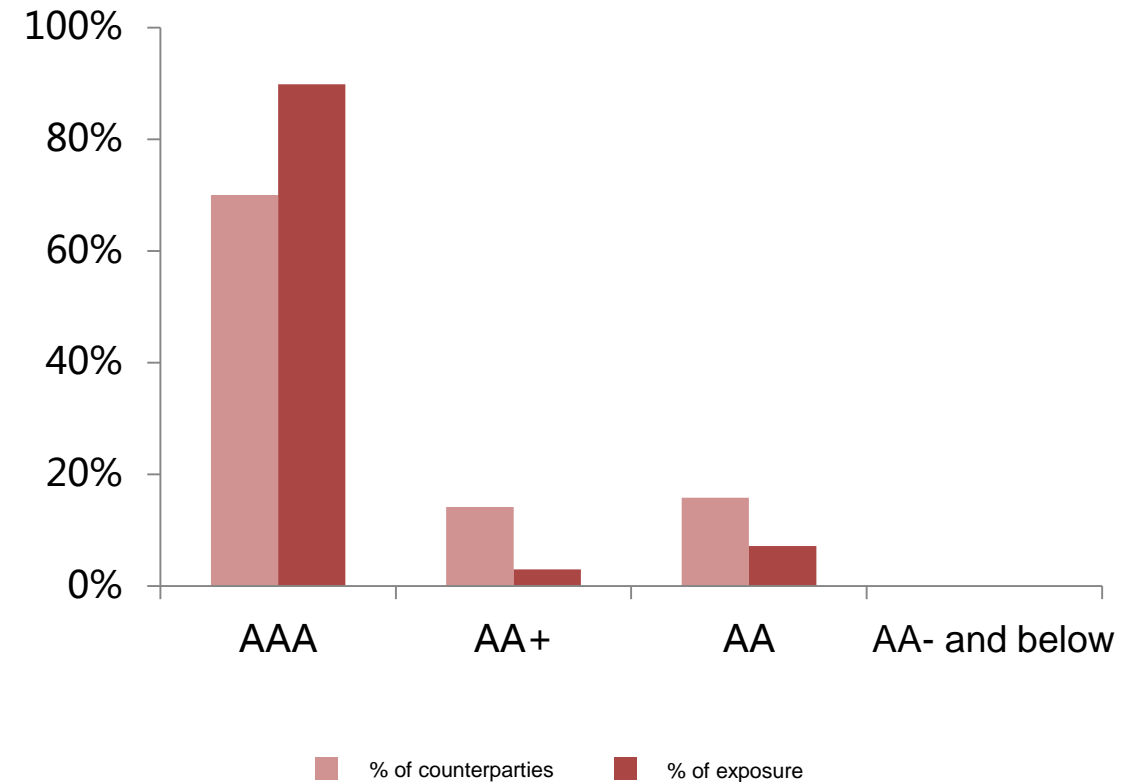
Risk mitigation techniques

Differentiated : pledge rate, financial period, credit enhancement facilities...

Real-time post-investment warnings

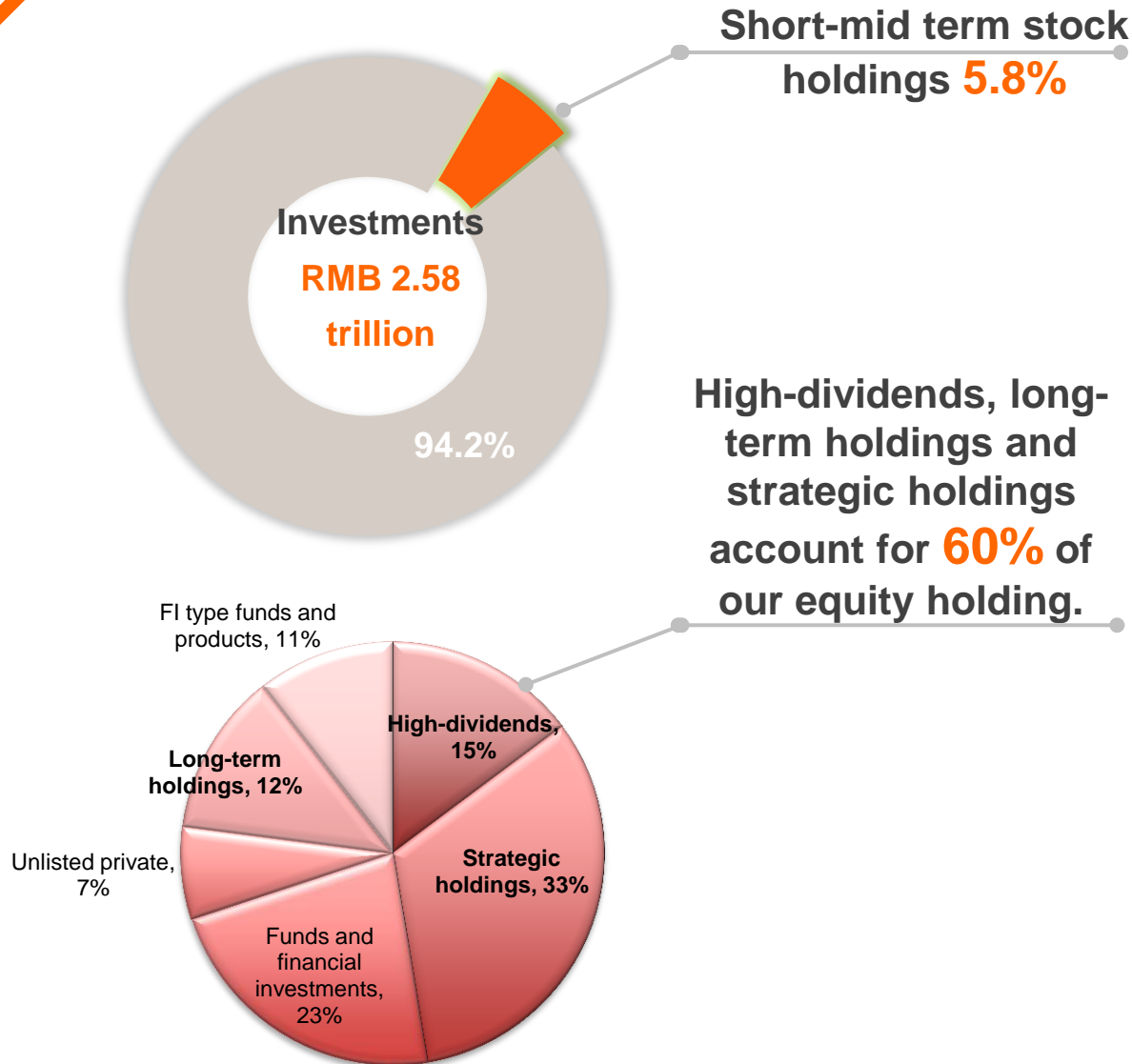
Quantitative: net debt ratio, cash multiples, pledge rates...

Qualitative: policy changes, etc.



* Based on external ratings

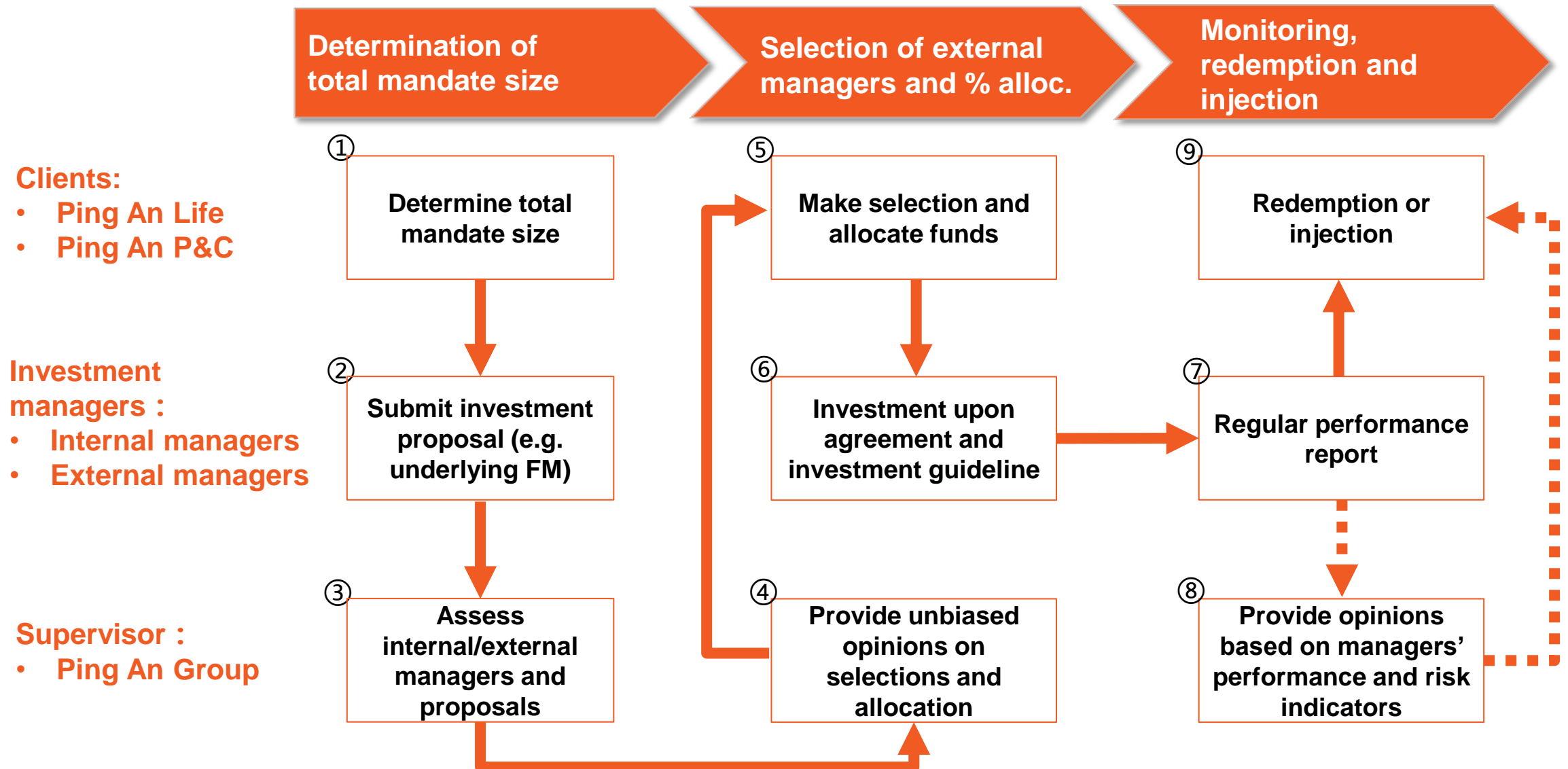
◆ Equity risk management – focus on high-dividend stocks and long-term holdings (1/2)



- **Our value-investment philosophy created a balanced mix of Equity holdings**
 - Among our Equity holdings (23%), after deducting PE and joint venture holdings, the remaining part accounts for 16.5%, of which long-term holdings of common stock accounts for 7.1%, preferred stocks accounts for 3.0%, **short-mid term stock holdings only accounts for 5.8%**;
 - H1 2018, we received 6.0bn dividend income, circa **10.3%** of the NII (58.4bn), higher than 2017;
 - Dividend ratios of banking preference shares at **4.85%**, dividend ratio from HSBC at **5.93%**;

Major strategic holdings	Dividend per share (18E)	Dividend ratio (18E)
HSBC	3.98	5.90%
ICBC	0.29	5.40%
Country Garden	0.64	17.02%
China Yangtze Power	0.67	5.55%

◆ Equity risk management – make full use of FOF/MOM strategies to boost return (2/2)



◆ Incorporating IFRS9 – will lead to an increased volatility in accounting P&L (1/2)

- Assume a sample portfolio is switched through the following rules, the expected volatility in P&L will largely increase.

IAS39

Classification	%
HTM	70%
AFS	30%

IFRS9

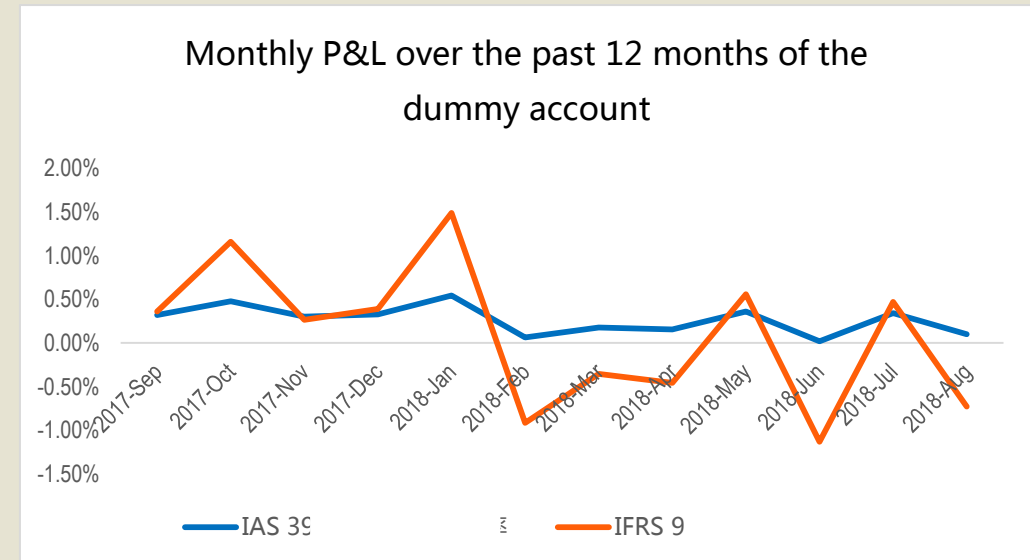
Classification	%
AC	66%
FVOCI	19%
FVPL	15%



	P&L volatility – IAS39	P&L volatility – IFRS9
Dummy account	0.20%	2.0%

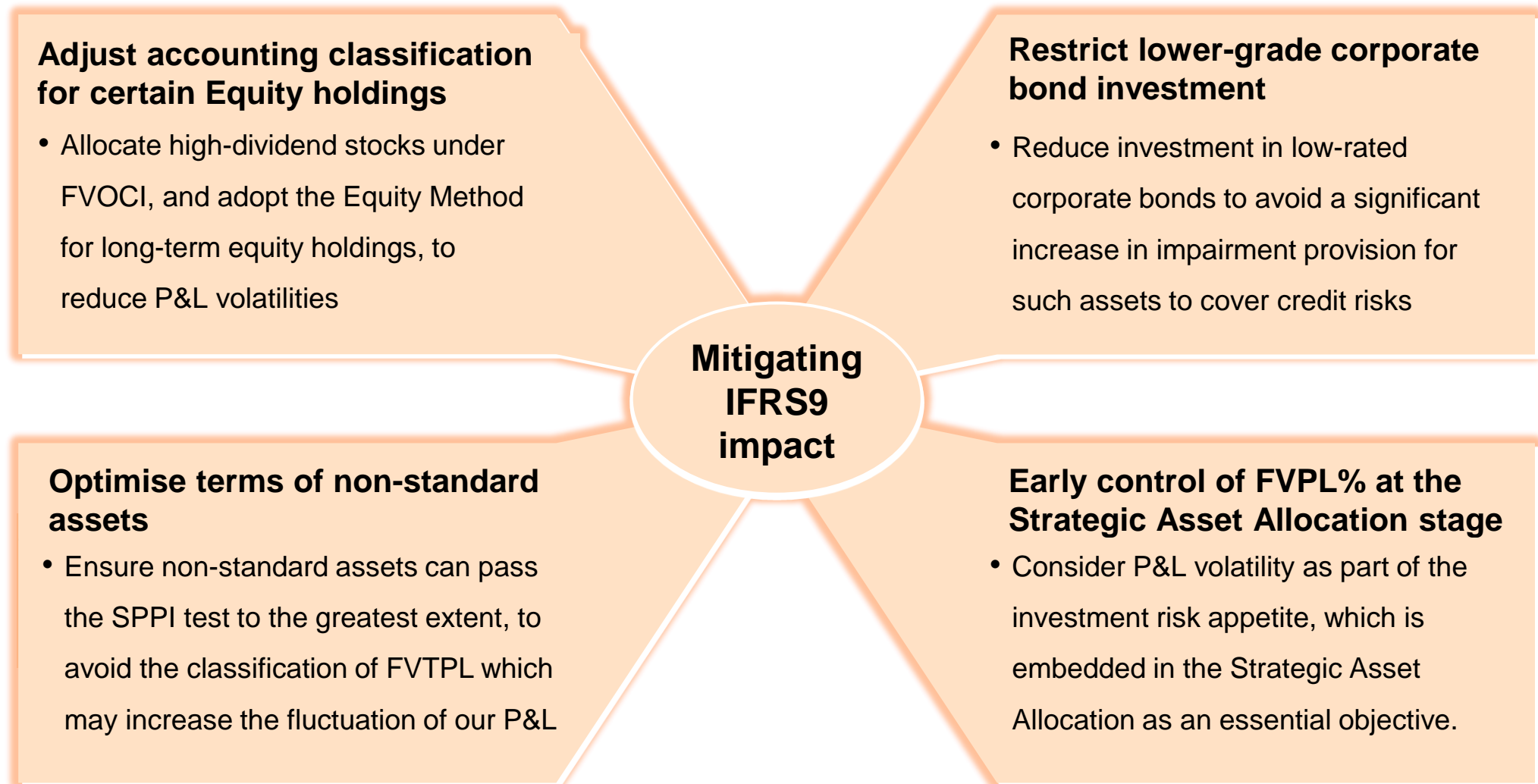
* Based on one-year Monte Carlo simulations

- Using historic back-testing approach, IFRS9 would have resulted a much higher volatility in the accounting P&L.



* Dummy account consists of 60% bonds, 20% stocks and 20% non-standard assets. Non-standard assets and 80% of bonds are booked under HTM or LR, stocks and 20% of bonds are booked under AFS.

◆ Incorporating IFRS9 – mitigating the impact of IFRS9 through optimisation and asset allocation (2/2)



◆ Summary — Ping An's 6 key strengths in investment and investment risk management

Aligned with international standards – “251” framework, internal rating

Group & subsidiary dual control system to ensure risks are transparent and manageable at consolidated level;
Collaboration with global firms to promote international standards.

Professional tools – supporting SAA and risk control

Localised the world leading **Conning** system; first to introduce **Risk Frontier & Risk Manager**, to create a modern risk management system

Process management – highly valued post-investment management

Utilisation of big data to support full investment process and promote realisation of investment objectives

Quantitative investment decisions – investment budgeting, risk management

Developed a localised Strategic Asset Allocation model based on the liability features;
Comprehensive limits system covering 23 subsidiaries.

Advanced systems – system-based process management

Started in 2012, the investment and risk management system and investment database have evolved and transformed into a smart one.

Local data – an in-depth analysis of the Chinese market

10,000 economic scenarios based on China data; Economic capital models, and stress test scenarios based on domestic market.

Thank you !



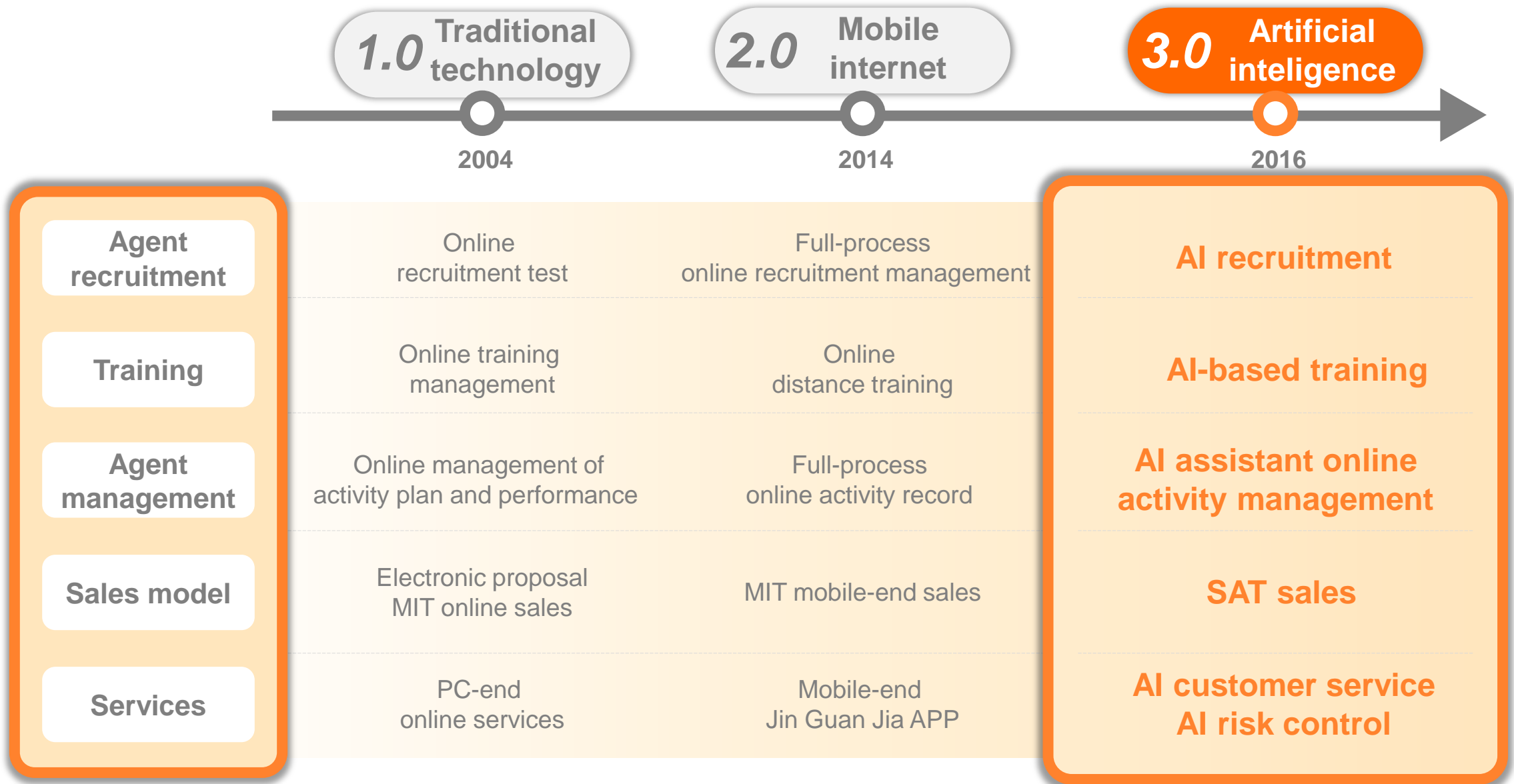


Technology Empowers PAL

Ping An Life

2018.10.12 Shenzhen, China

Technological application in PAL has gradually upgraded to 3.0



Technology empowers PAL to obtain remarkable achievement in 1.0 and 2.0

1.0 Traditional technology



Paper saved^①

310 mn sheets/year

Time for underwriting^②

5 days shortened to
15 mins

2.0 Mobile internet



Online agent training^③

91%

Proportion of online services^④

90%

Achievement



Services manpower reduced^⑤

70%

Productivity improved^⑥

32%

①Total paper saved in preparing electronic proposals and insurance policies

②Time taken from application for insurance, insurance underwriting to completing payment

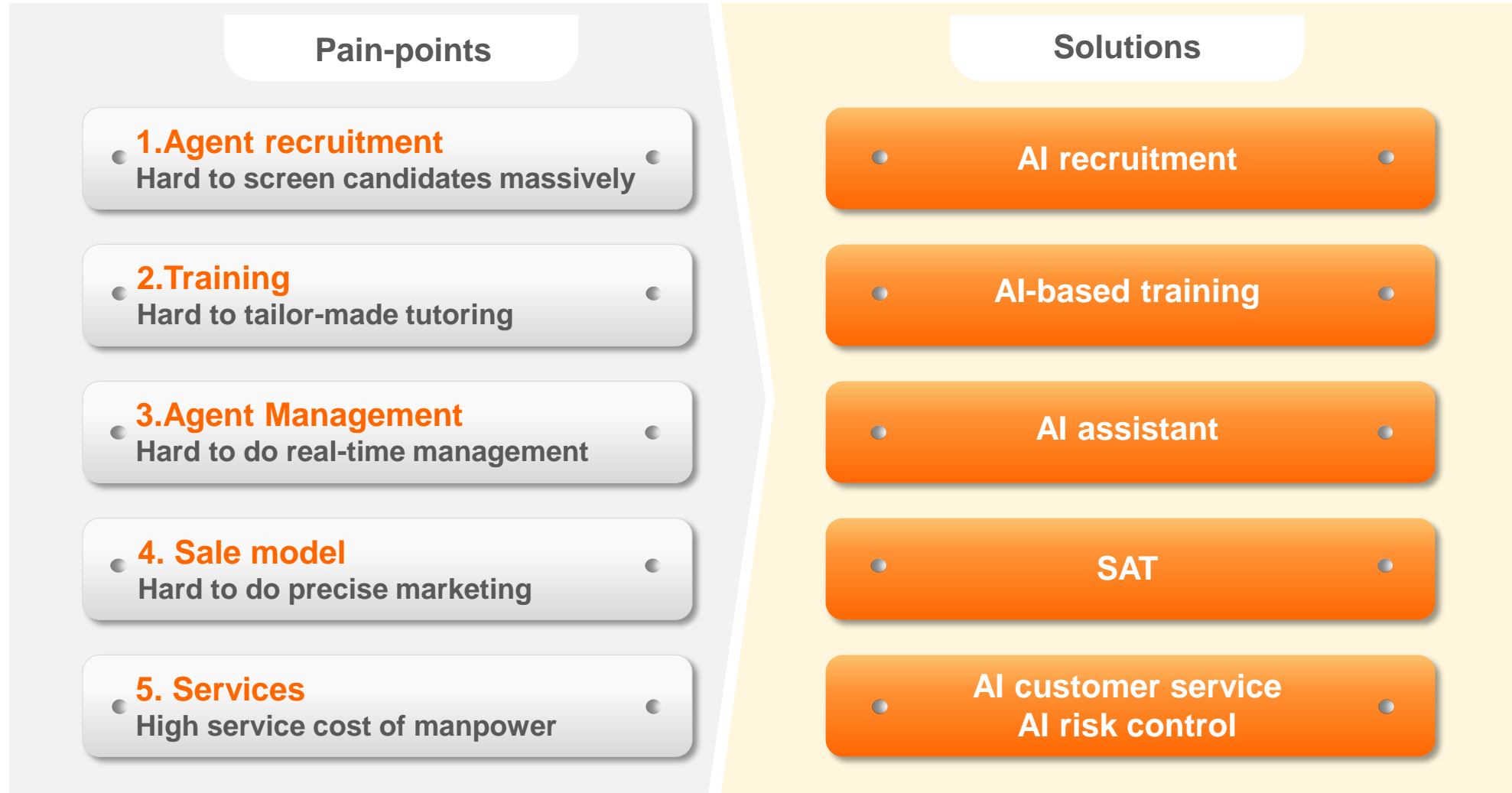
③Proportion of online learning courses to all courses for agent

④Proportion of online services to overall services for customers

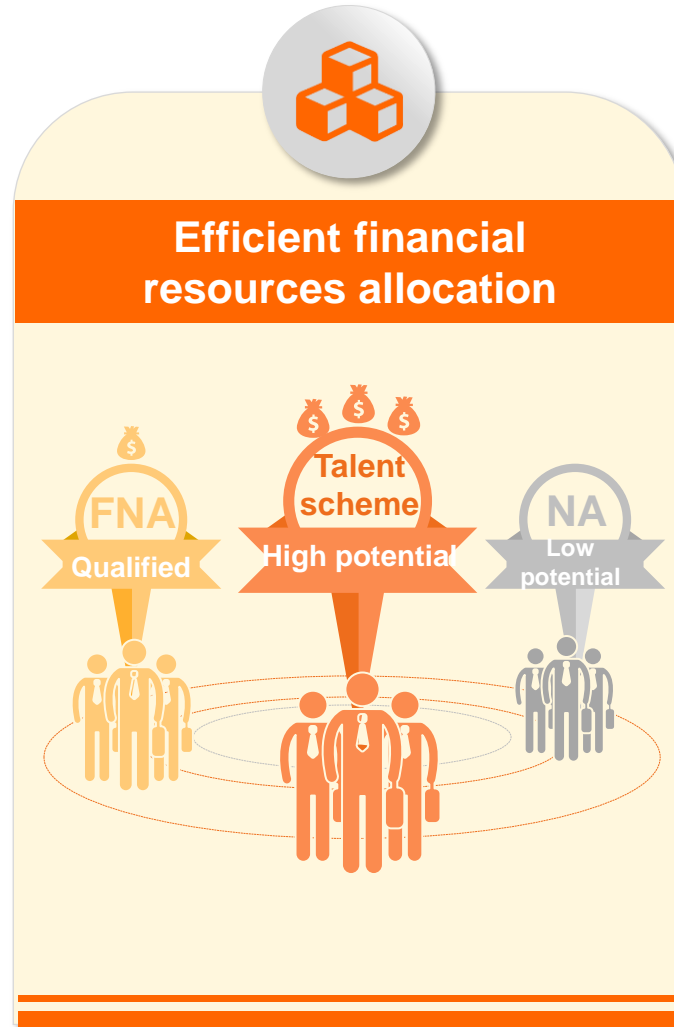
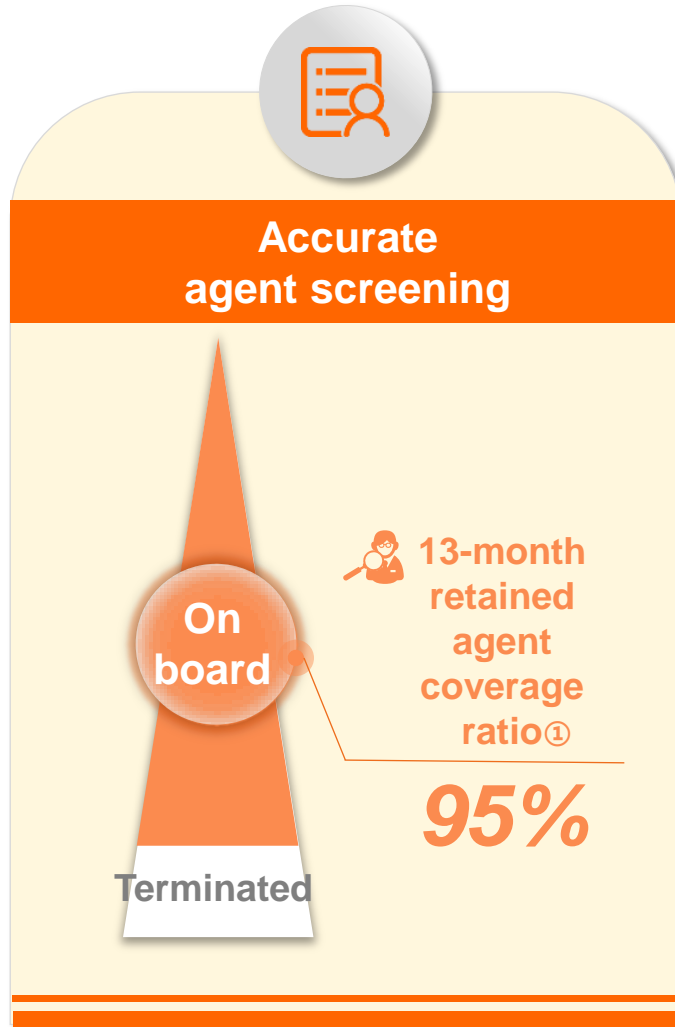
⑤Number of manpower reduced under Smart Customer Service model

⑥Growth of FYP per agent from 2014 to 2016

Multiple business pain points lead to 3.0 solutions

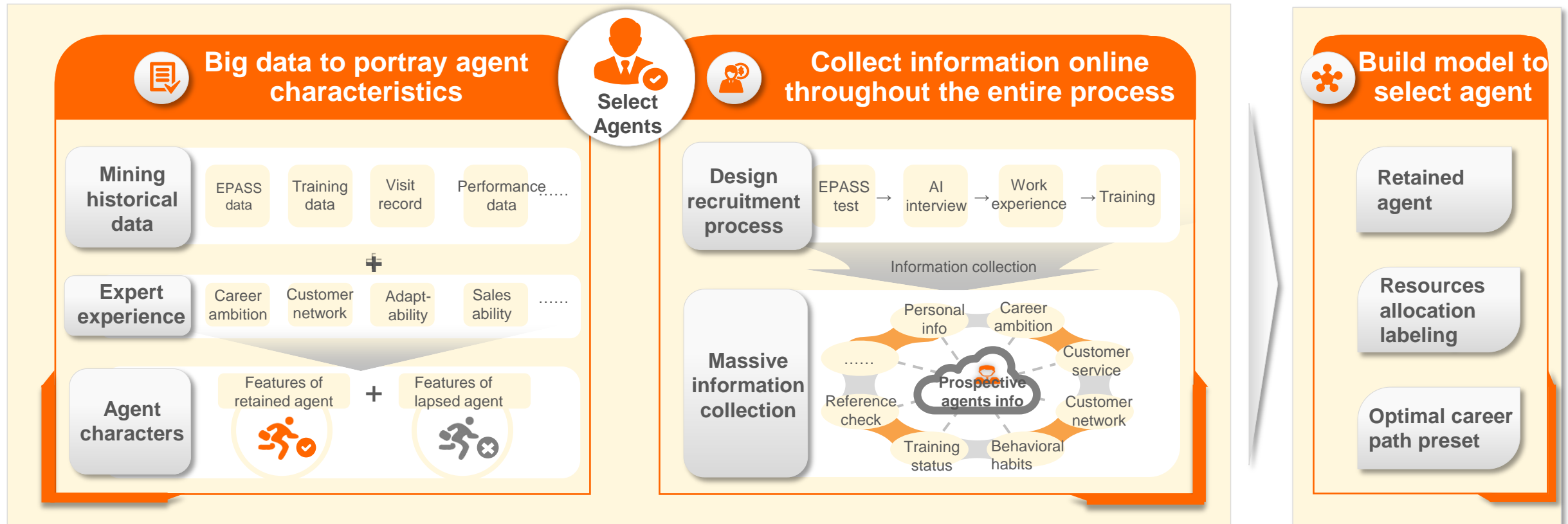


1. Agent recruitment: AI recruitment and interview to achieve better screening, resources allocation and career development



① Proportion of retained agent selected by the model to the total retained agent

AI recruitment: Design screening process, collect information online based on agent characters and build model



Algorithm



6,400+ layers which improves the node factors of decision trees



10+ hidden layer network



76,800+ neural network



Model



Integration of multiple algorithms including GBDT, FM, DNN, etc.

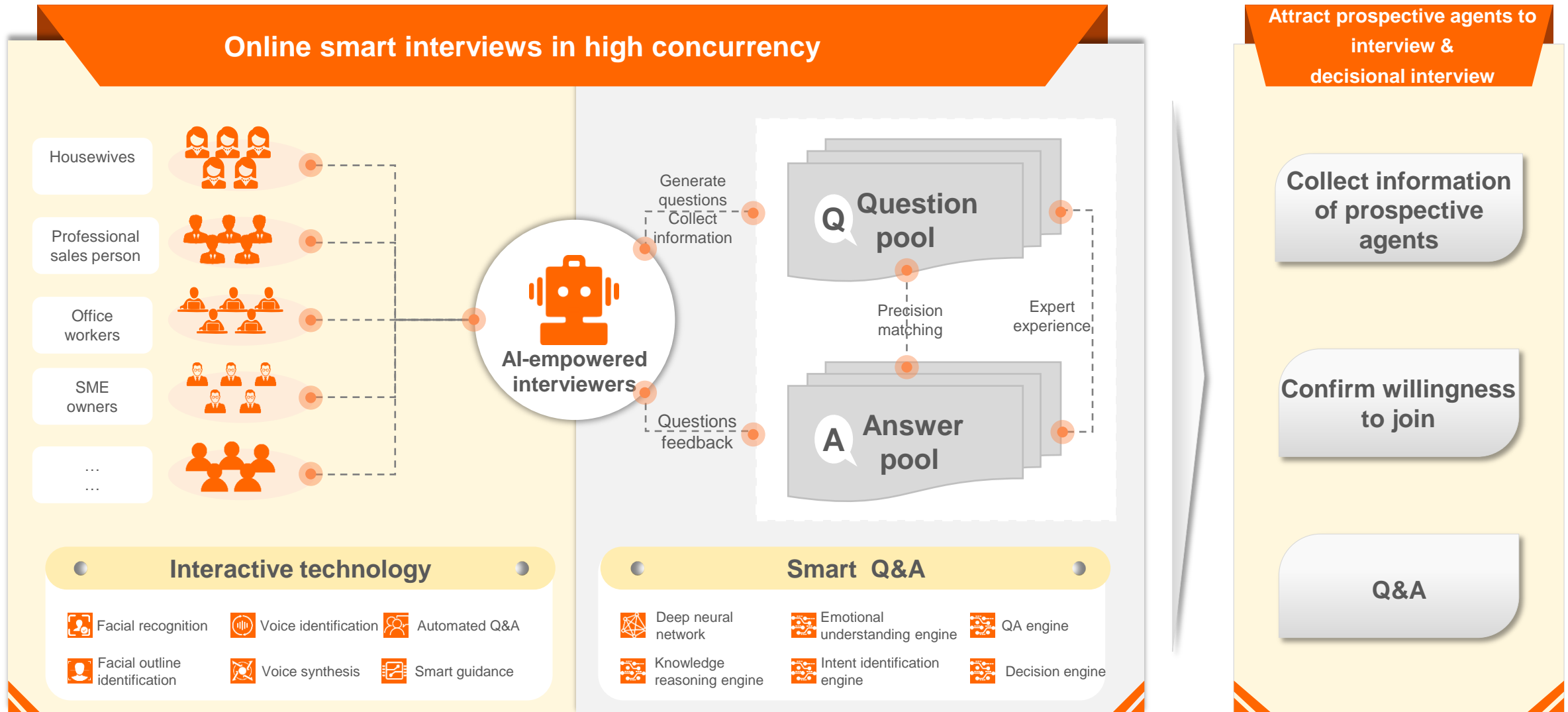


40 mn + parameters computing



1,000 + CPU&GPU cluster computing

AI interview: AI-empowered interviewers conduct real-time online smart interviews, to achieve information collection and confirm willingness



AI recruitment and AI interview have been fully launched in agency channel and have gradually delivered achievements

2018
Fully launched
in
agency channel

2019 Target



Cumulative time length
of online AI-interview^①

1.43 mn hours/year



13-month retained agent
identification ratio%^②

95%



Saved financial resources^③

RMB **630** mn

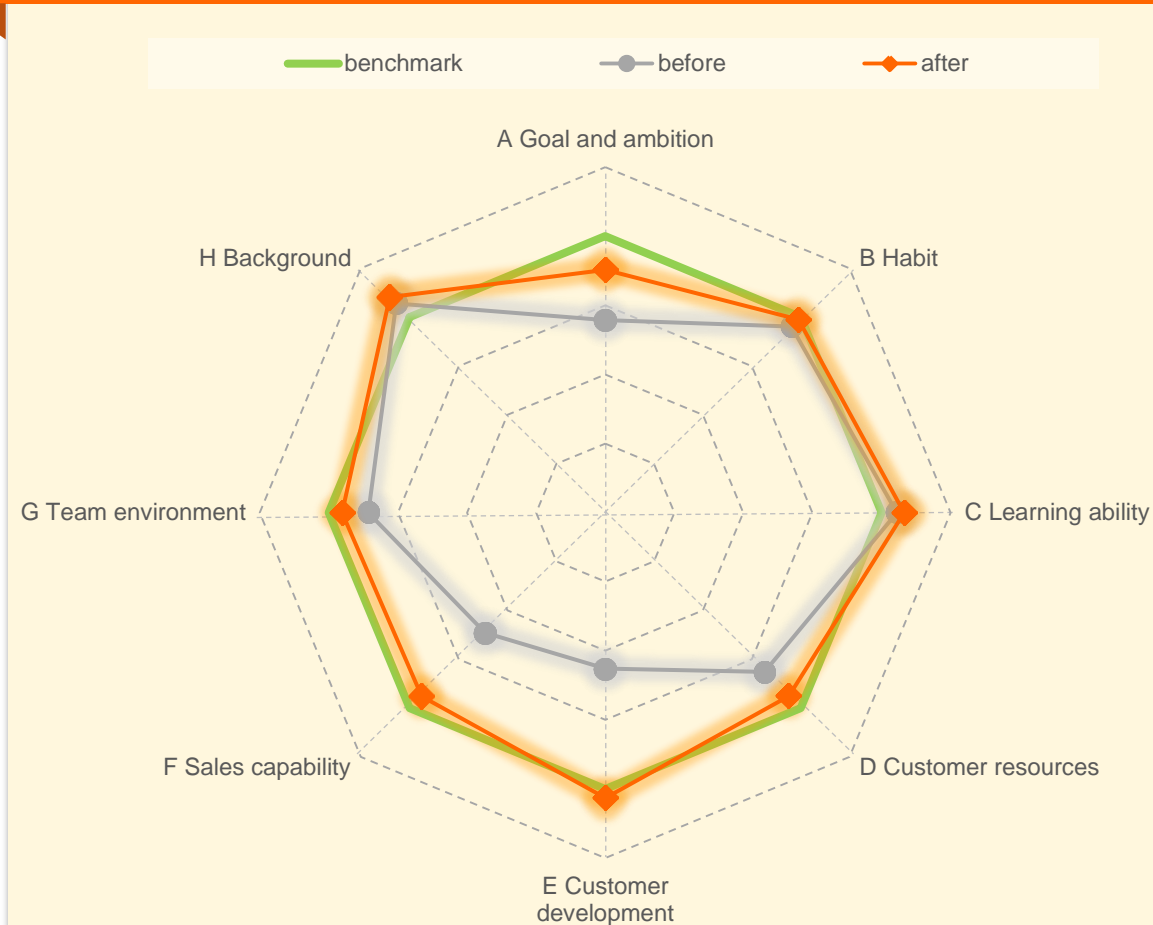
① Estimation of the time length of candidates' online interviews

② Proportion of retained agents selected by the model to the total retained agents

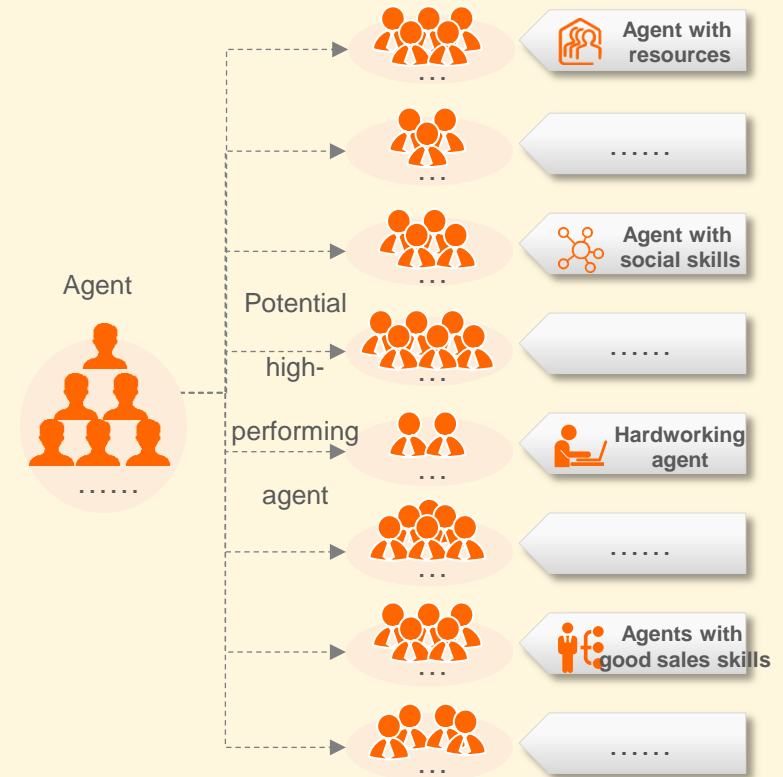
③ Total saved costs including office expense, training allowance and trainings

2. Training: AI-based training to achieve agent skills improvement and high-performing agent^① rapid replication

Agent skills improvement



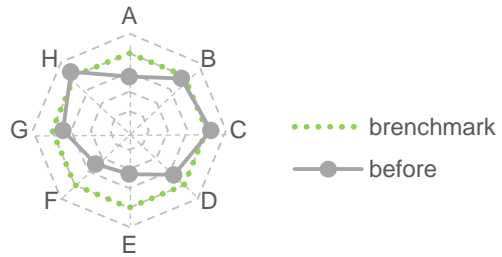
High-performing agent rapid replication



① Agents with over RMB 3,000 first-year commission and over two insurance policies in the current month

Agent skills improvement: Weakness identification, smart allocation of courses, and training results tracking

Weakness identification



Strength

H. Recognition of life insurance
C. Familiar with technology application
.....

Weakness

E. Customer relationship
F. Multi-product recommendation
.....

Smart allocation of courses

Course
label

+

Course
match
rule

+

Engine
allocat-
ion

Course 1

Course content
+

Course 2

Course form
+

Exam

Training results tracking



Learning
results
evaluation

+



Capability
assessment



Pass

Move to next step



Fail

Restudy + supervisor mentor



Algorithm



12 Ability categories scores



44 Ability scores



97 Indicator scores



Model



Score card model



K-MEANS algorithm



Category forecast model



Online course pool

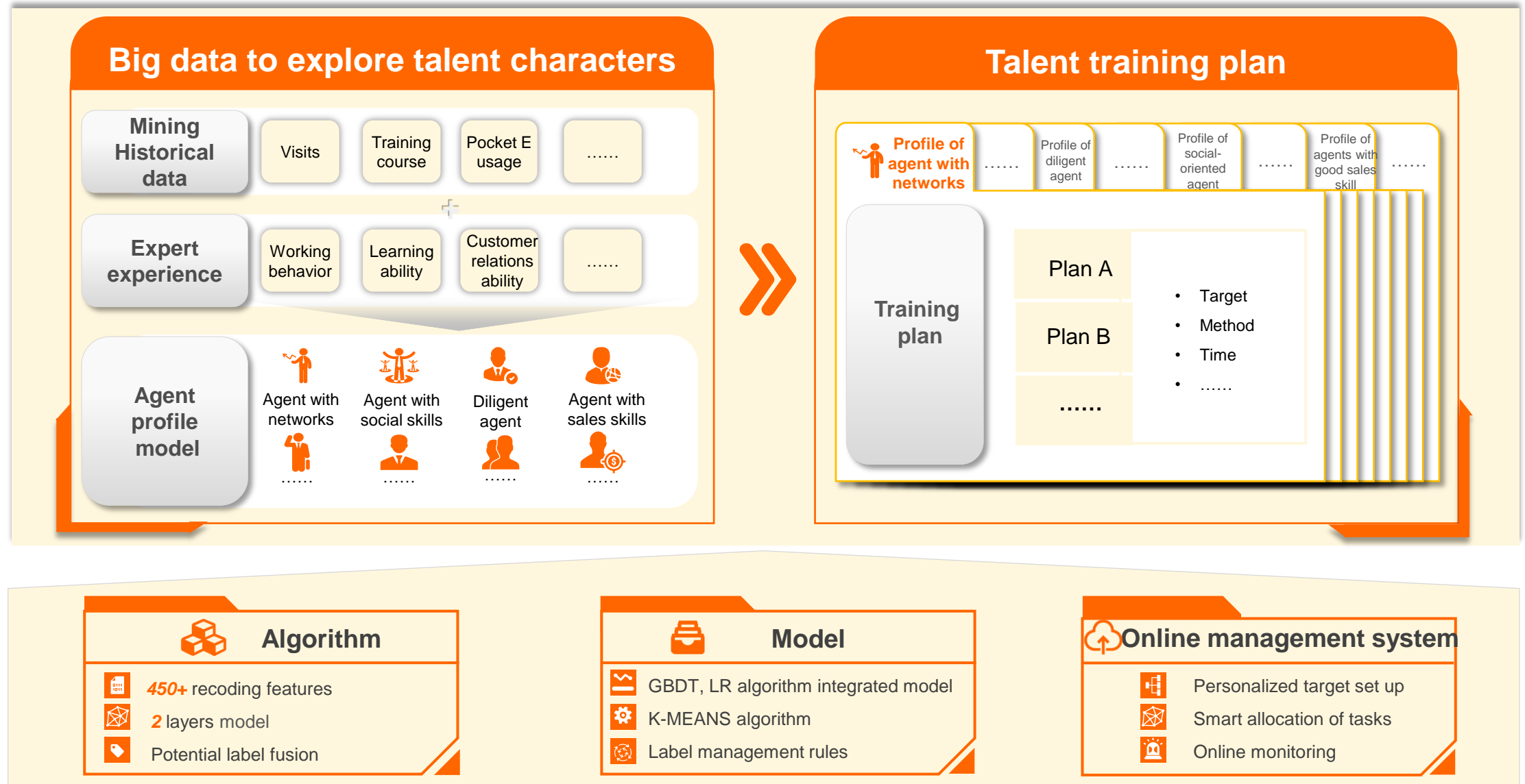


900+ courses



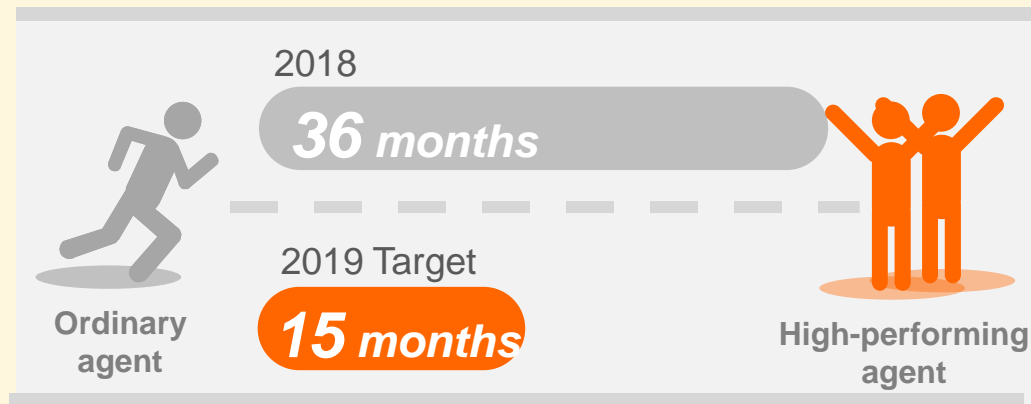
Cover all ability categories

Rapid replication of talent agent : Big data to build high-performing agent profile model and design training plan

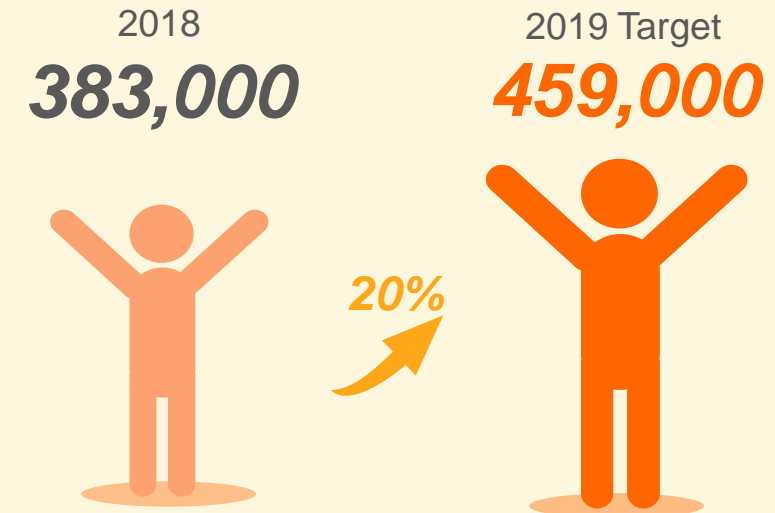


AI-based training is about to be fully launched and will significantly improve efficiency of nurturing high-performing agent

Shorten the time taken of training high-performing agent ①

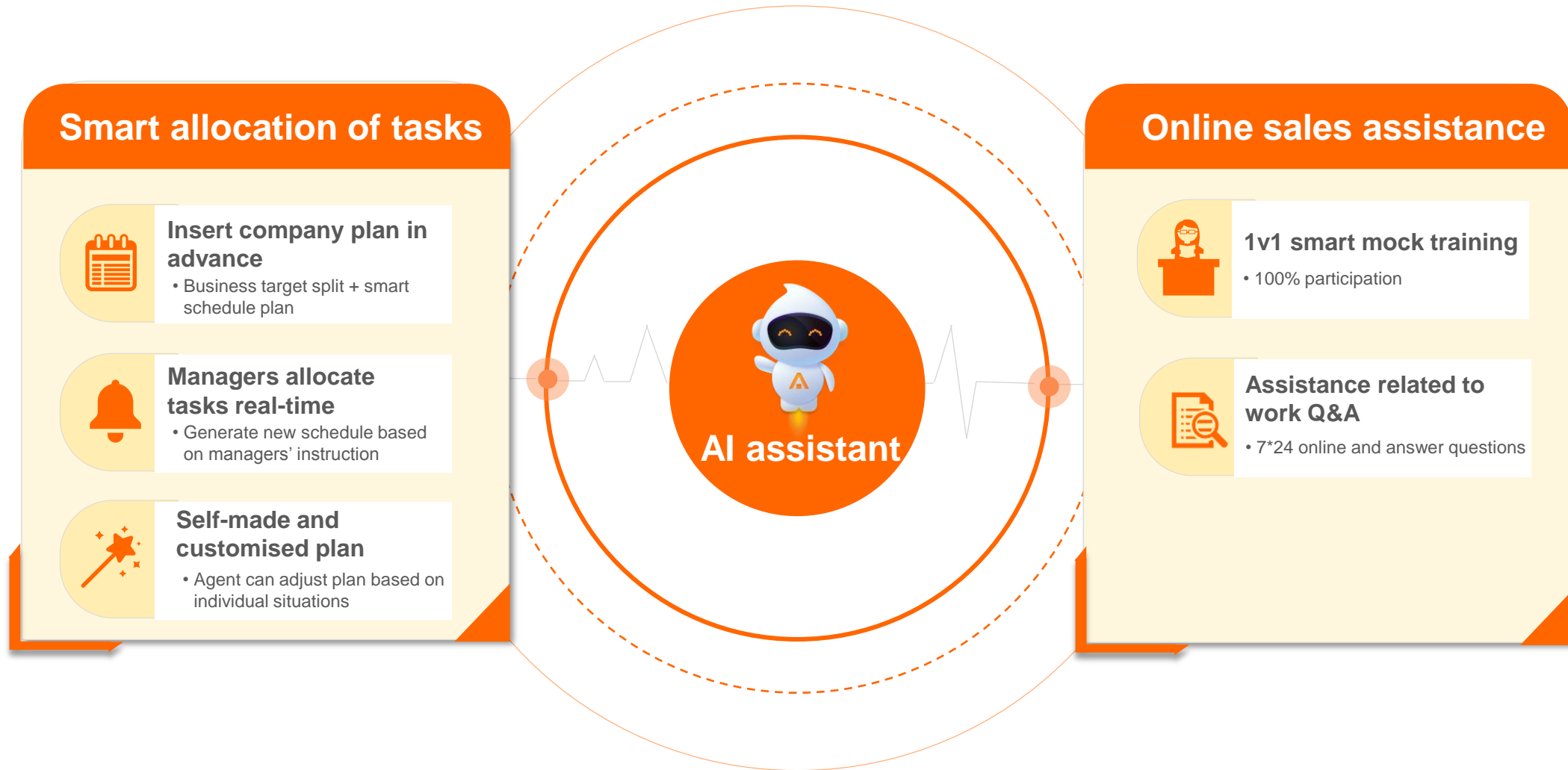


Expand the scale of high-performing agent

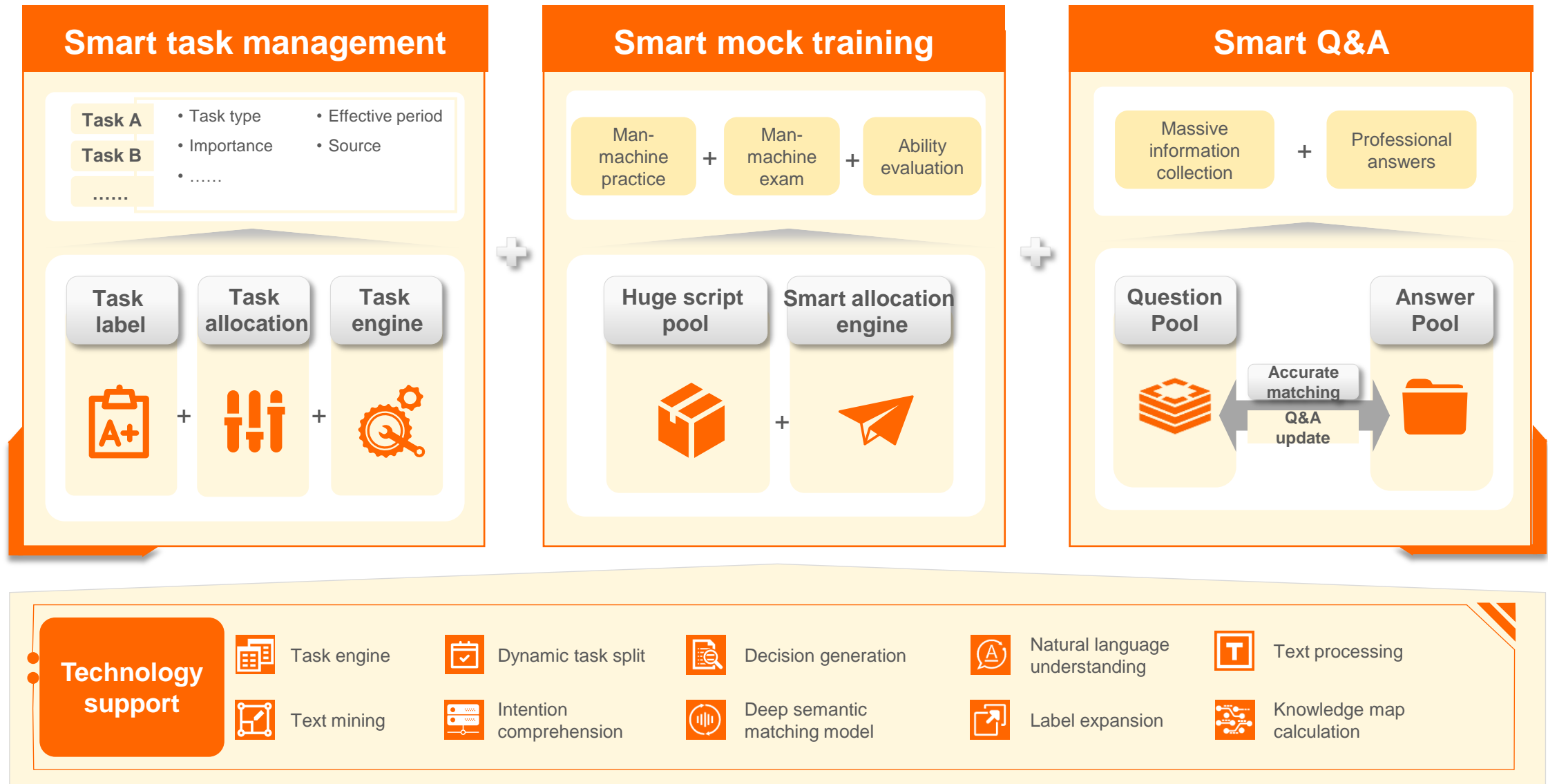


① The average time from agent on-boarding to first achievement of high-performing agent

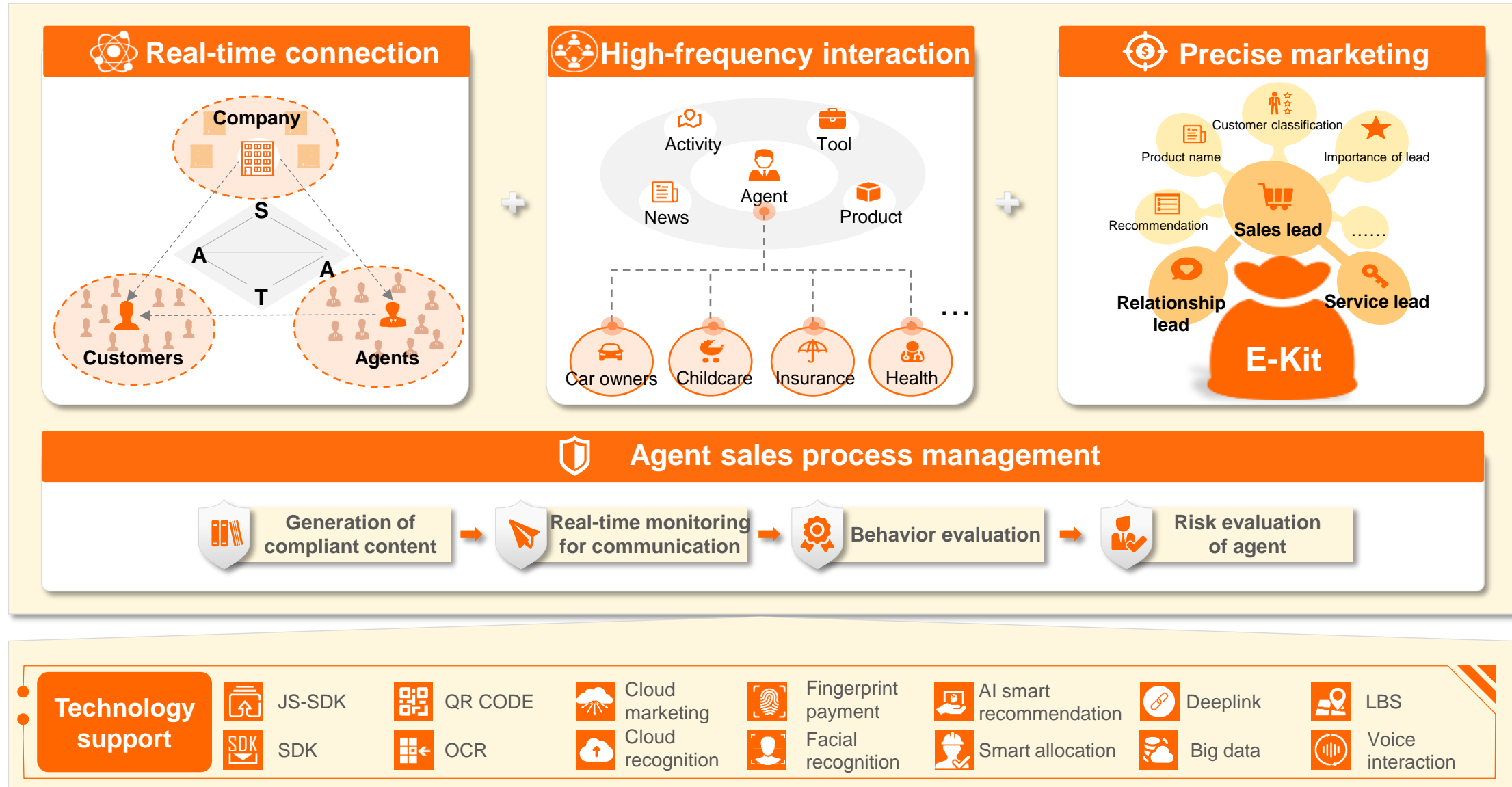
3. Agent management: AI assistant realizes smart allocation of tasks, and provides online sales assistance



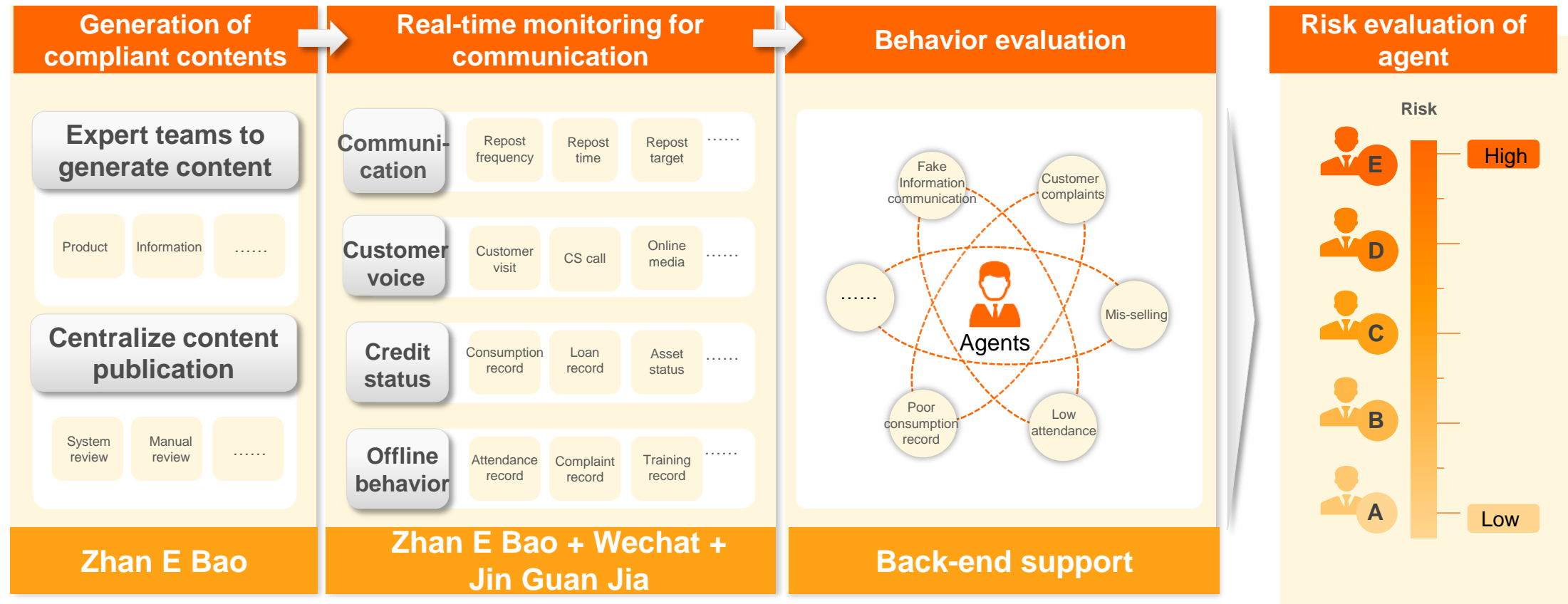
AI assistant: Already developed three capabilities: smart task management, smart mock training, and smart Q&A



4. Sales model: SAT enables real-time connection, high-frequency interaction, precise marketing and agent sale process management



Sales process management: Full-process tracking to reduce behavioral risks of agents



Technology support



Sales behavior evaluation model



Consensus monitoring system



Multi-media interaction



Text recognition



Cloud recognition



Big data



Voice recognition

SAT model had been deeply applied in PAL, with remarkable results



Reached customers^①

220_{mn}



Interaction times^②

1.3_{bn}



Sales lead
conversion ratio^③

10.8%

①Number of readers who read the contents forwarded by agent online

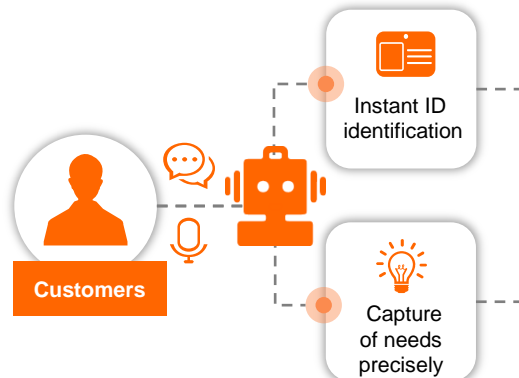
②Number of time users had read the content forwarded by agent online

③ Proportion of successful conversion of sales lead provided to agency channel

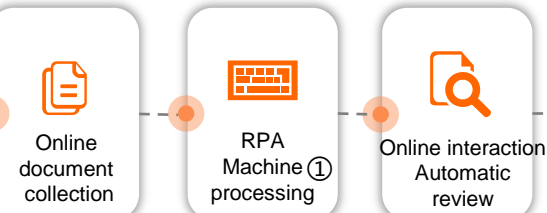
5. Customer service: 24h-online virtual-human services to achieve precise and efficient service

7*24 online virtual-human service

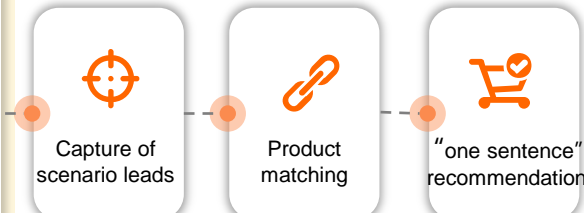
Business type identification



Smart processing



Product recommendation



Precise and efficient service

Instant identification

ID + Needs

One-click solution

Inquiries + Process services

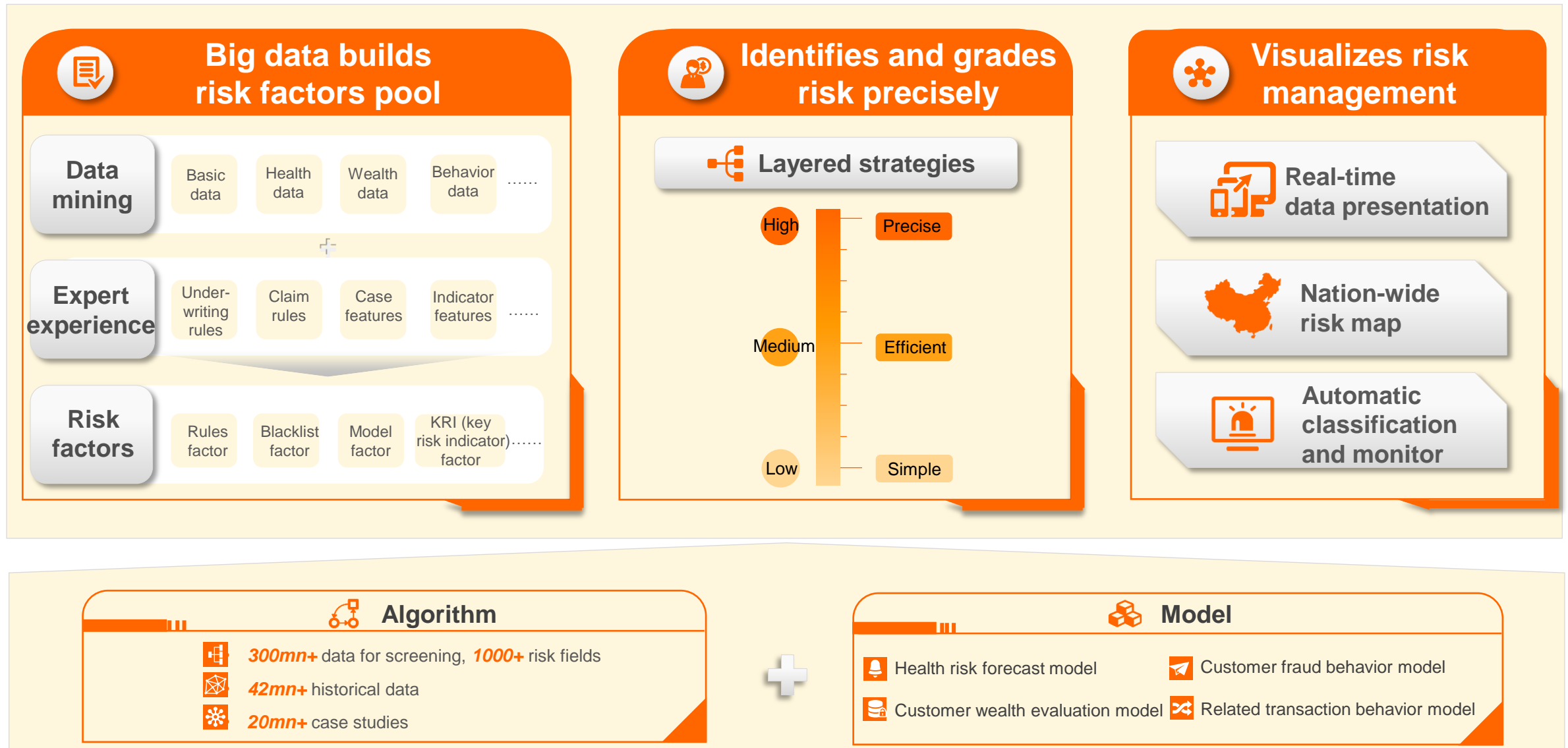
Precise recommendation

Services + Products

Technology support

- | | | | |
|--------------------------|-----------------------|----------------|-----------------------|
| H5 Text interaction | OCR Image recognition | Decision tree | Timeline |
| Multi-media interaction | Knowledge map | RPA robots | Customer profiles |
| Biometric identification | NLP | Scenario pool | Service tips |
| Micro facial expression | Hospital network | Optimal routes | Recommendation engine |

AI risk control: Big data builds risk factors pool, identifies risks precisely, provides layered strategies and visualizes management



AI customer service and AI risk control have been fully launched and will generate significant impact

Fully launched in 2018

2019 Target



99%

Proportion of online
AI services^①



RMB 350_{mn}

Anti-fraud
reduces losses^②



RMB 2_{bn}

Superfast underwriting
reduces premium lapsed^③



RMB 2.8_{bn}

Service drives
sales revenue^④

① Proportion of AI-enabled services to online service

② Total sum of claim rejection of high-risk claiming cases identified by Smart Risk Management System

③ Improvement in (estimated) direct underwriting approval * estimated underwriting premium * 14% reduction in lapse

④ Total sum of sales revenue achieved by successful product recommendation in the service process

Thank you!

