
Ping An Bank Transformation

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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

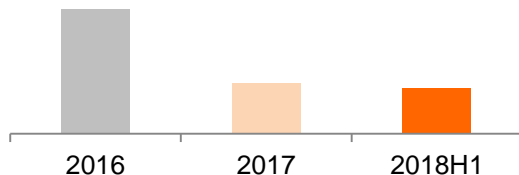
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Rebuild management team and promote efficiency

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

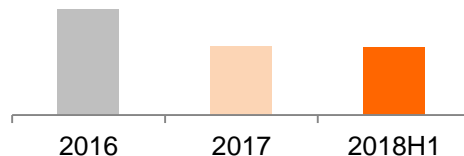
Corporate loan

Unit: RMB100mn



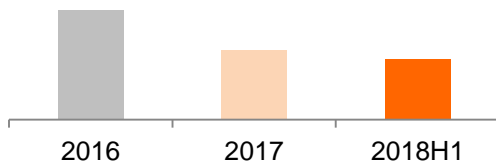
Corporate off-balance sheet

Unit: RMB100mn



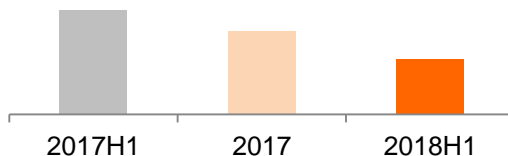
Corporate RWA

Unit: in RMB100mn



Interbank RWA

Unit: RMB100mn

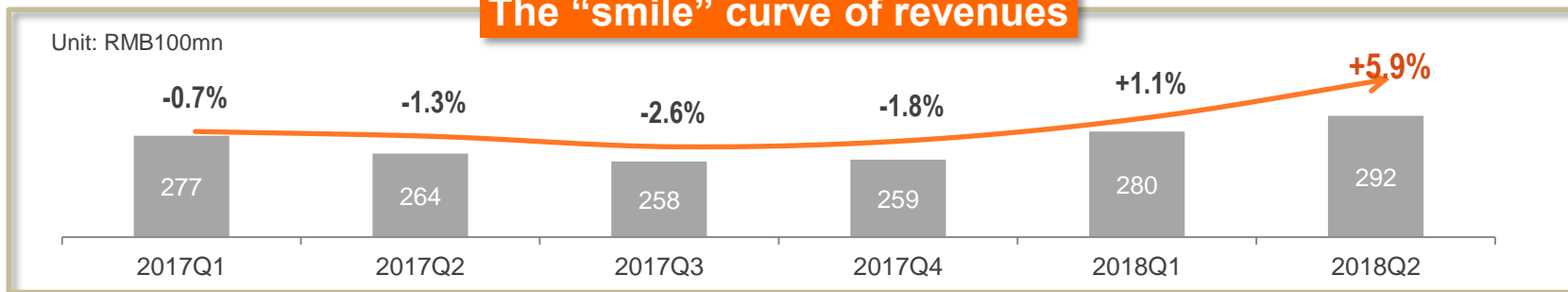


- Meaningfully compressing asset scale with RWA reduction ranked 1st among peers, freeing up resources to develop retail business
- First in industry to lower leverage, hence facing relatively less pressure from moving off-balance sheet items back on balance sheet (An estimation of RMB30bn has to move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

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

Steady profitability and growing revenues

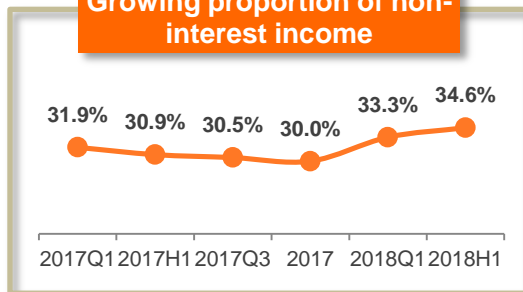
The “smile” curve of revenues



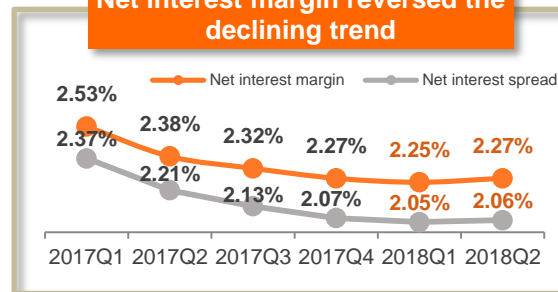
Net interest income restored to positive growth YoY



Growing proportion of non-interest income



Net interest margin reversed the declining trend

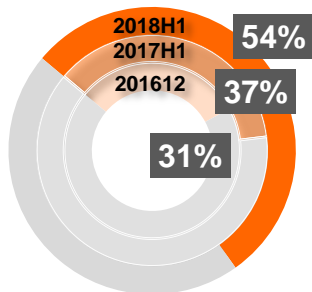


Note: The decrease in net interest margin in 2017 was partly due to the active reduction of high-risk and high-return corporate loans.

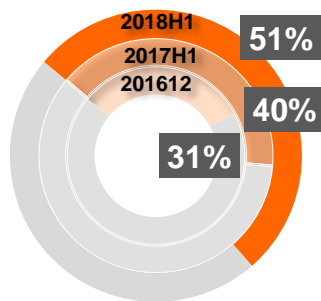
Fundamental change in business structure: retail banking becomes the main growth driver

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

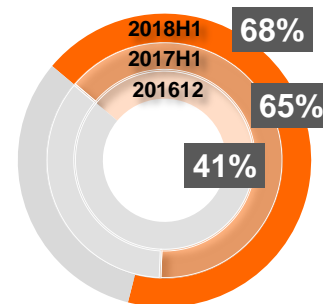
Retail loans of RMB998.9bn,
accounting for 54%



Retail revenues of RMB29.3bn,
accounting for 51%



Net retail profit of RMB9.1bn,
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

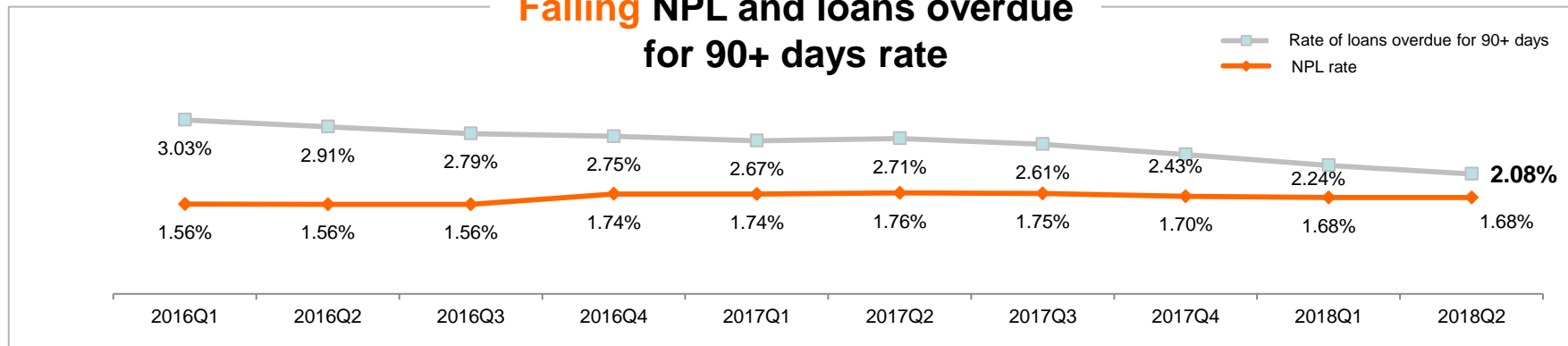
Industry: Electronics information, healthcare, culture & education etc.

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

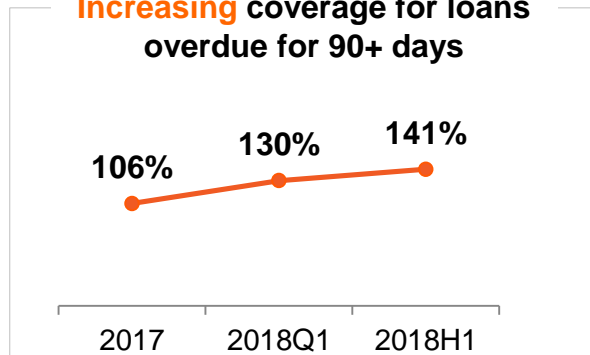
Customer: Quality customers from major industries etc.

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

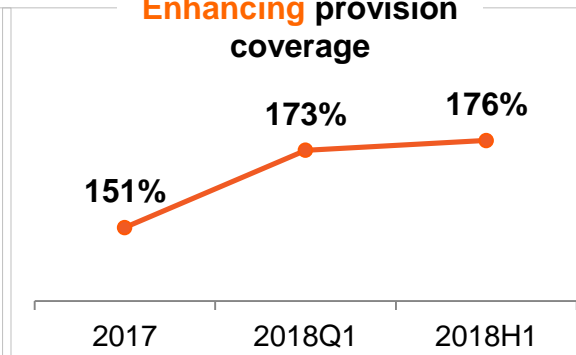
Falling NPL and loans overdue for 90+ days rate



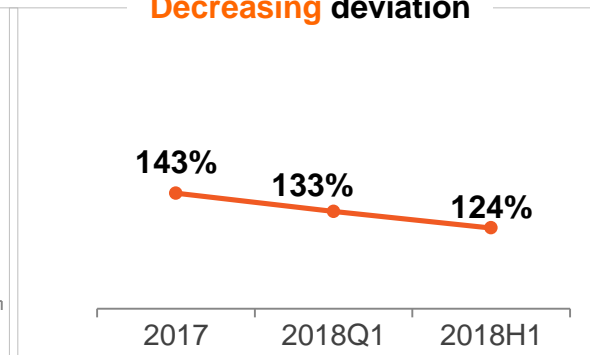
Increasing coverage for loans overdue for 90+ days



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

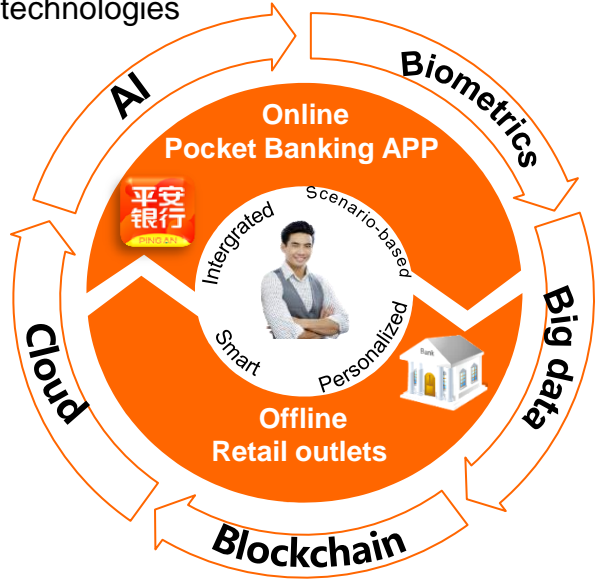
- Tightening regulation bring new challenges to the whole industry
- New business development model demands more from management team

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

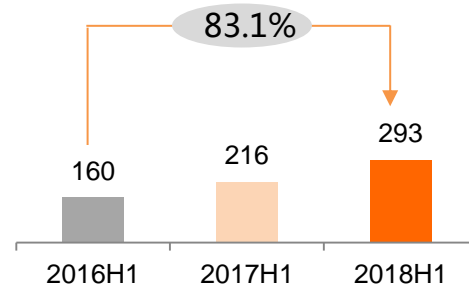
❑ Technological characteristics

- 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

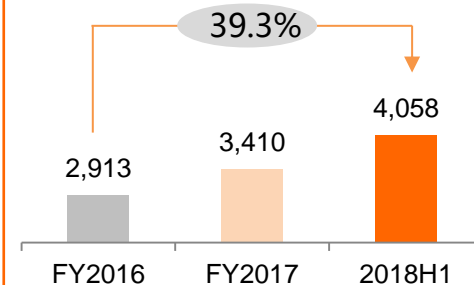
❑ Fast and continuous growth

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

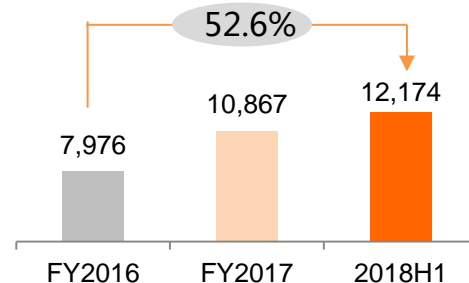
Retail revenues
(RMB100mn)



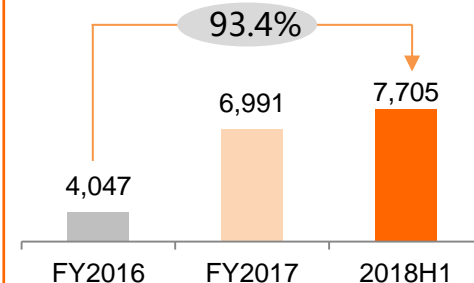
Retail deposits
(RMB100mn)



AUM (RMB100mn)

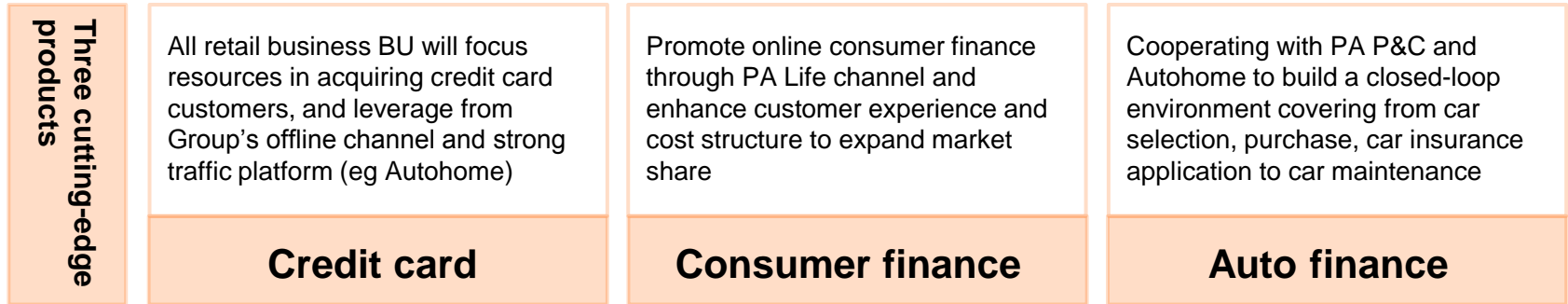


Retail customers (mn)



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

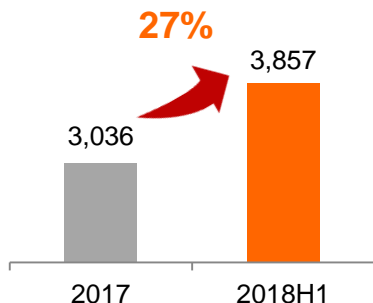
As urbanization level and consumer consumption continue to improve, consumption's effect on economy is becoming more significant and creating opportunities for retail finance



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

Core retail business growing fast and steadily

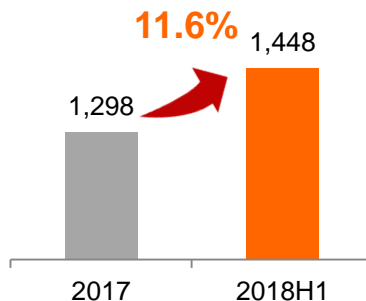
Credit card loan balance



- 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 **RMB1,207.2bn**, up **89.9%** YoY

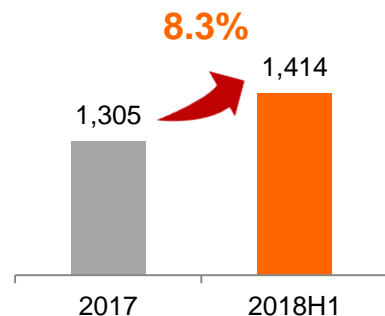
Note: Data as of 1H 2018

Xin Yi Dai loan balance



- **RMB56.4bn** worth of loans were issued in 1H 2018
- Supporting micro and small businesses with business loans account for about **30%** entirely

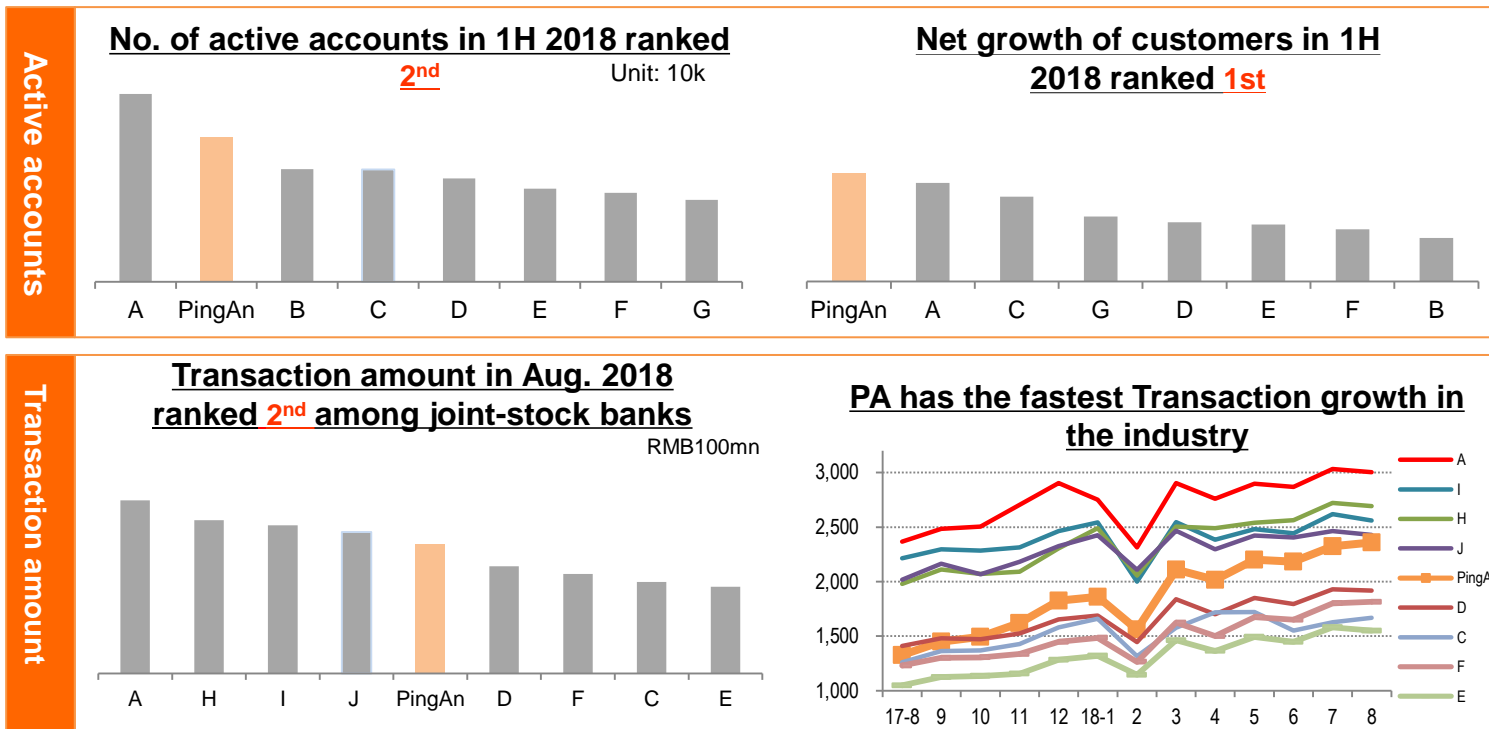
Auto finance balance



- Ranked **1st** in market share
- **RMB71.6bn** 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



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

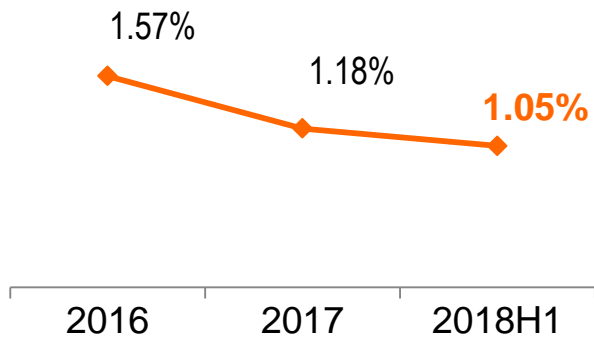
- Credit risk forecast & rating
- Customer income evaluation model
- Revenue forecast model

Biometric information application

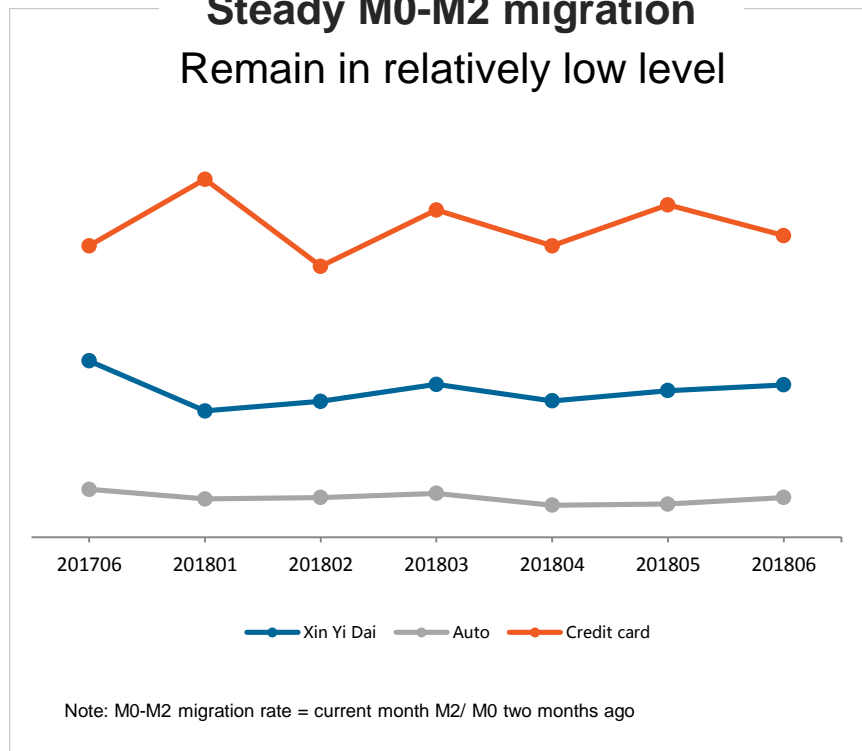
- Biometrics (face recognition & voiceprint)
- Fingerprint

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

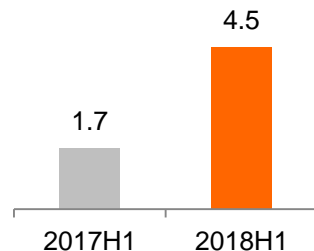
The dual-light + industry-based strategy has brought good results

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

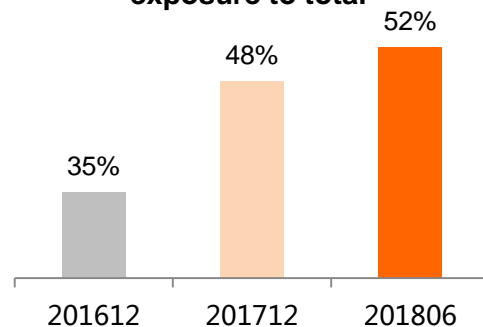


Strategic cooperation with several major pharmaceutical companies to offer integrated financial services to customers

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

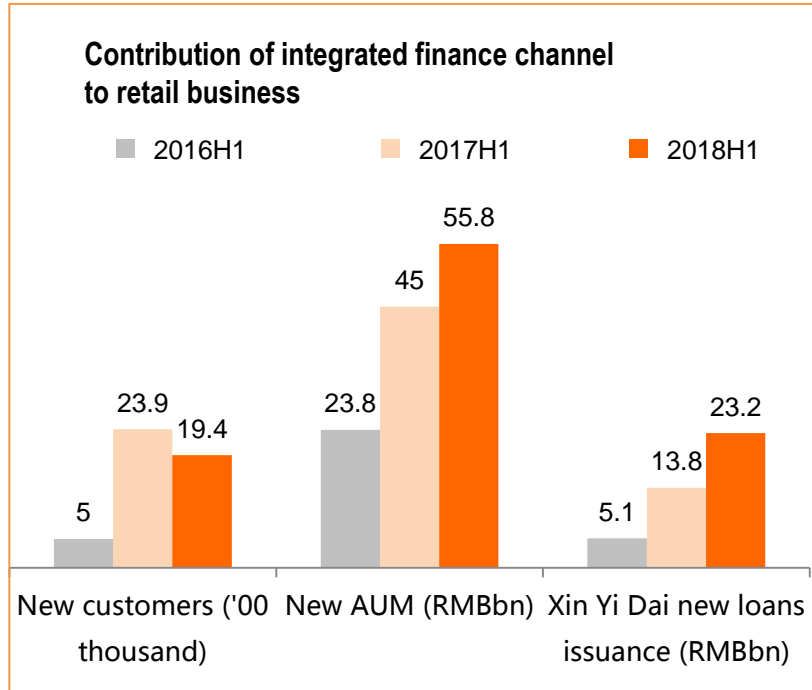
486mn internet users

2mn corporate customers

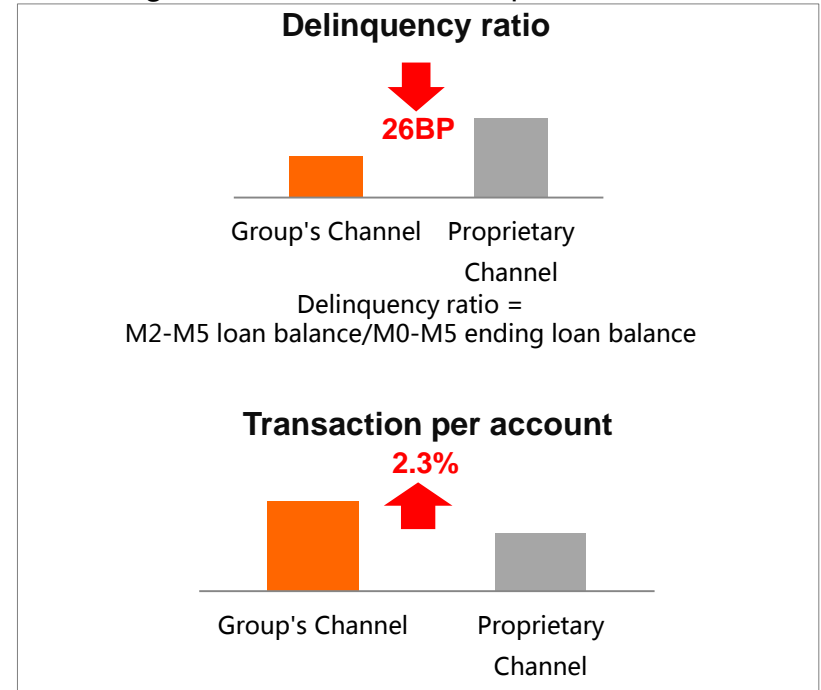
1.399mn agents

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.

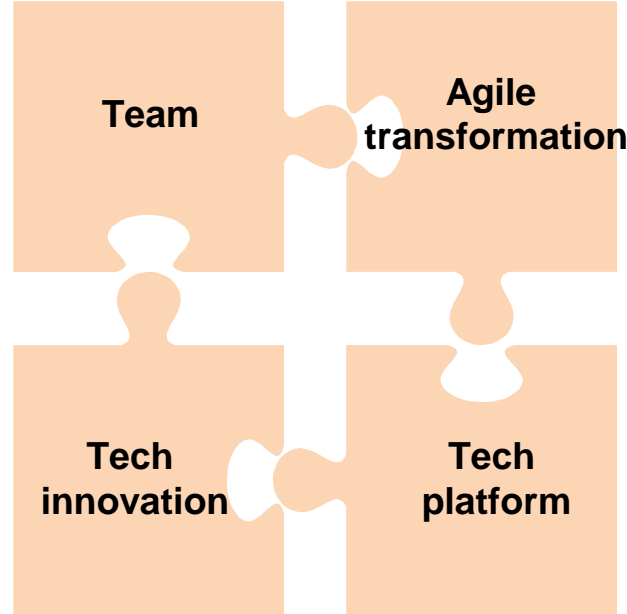


Note: data as of 1H 2018

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' 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

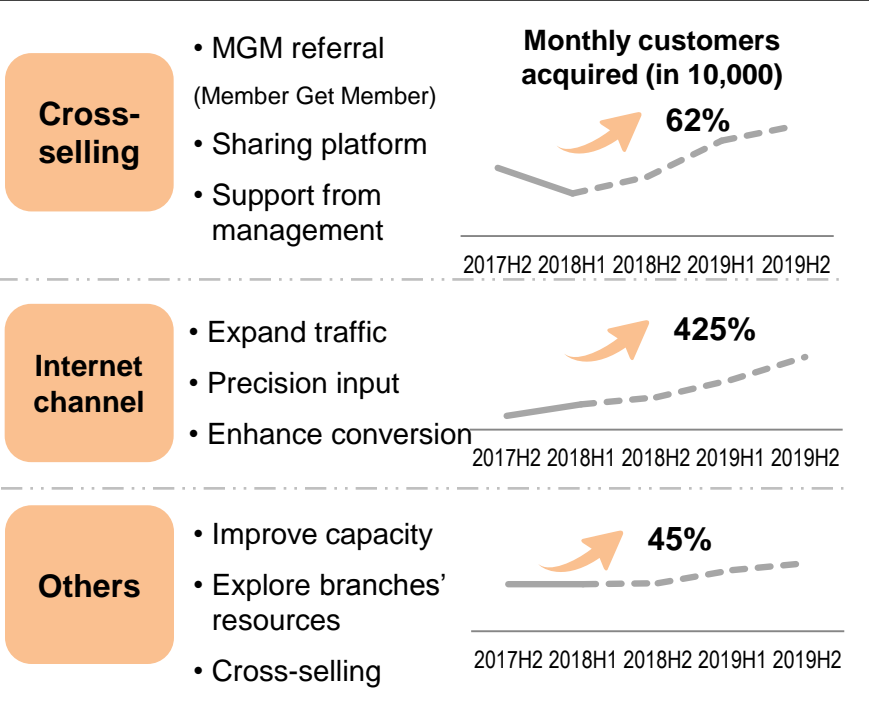
Organization

- 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



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



Capital

- Strengthen capital metric appraisal
- Prioritize resources to retail business
- “Dual-light” corporate business strategy



Retail banking

- Leverage Group’s resources to develop retail business
- New lending resources to be allocated to retail business



Integrated finance + tech

- Realizing Group and integrated finance platform synergies
- Enhance services, risk control and management through technology

ROE is expected to achieve a higher level in the next 2-3 years



Corporate banking

- Execute “Dual-light” strategy with focus on targeted industries
- Strictly control NPL growth while resolving legacy assets



Provision

- Provision has increased over the years
- Provisioning pressure is alleviating given slowdown in new NPL generation

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

