



# **Impairment of the Investment in Fortis Group Shares**

**October 6, 2008**

- n Background on the Impairment of Fortis Shares**

- n Financial Impact to Ping An Group (“PAG”)**

- n Other Overseas Investments and Fortis Investment Management Transaction**

## Background on the Investment in Fortis Shares



As at Jan 22, 2008 PAG held 113,496,265 shares of Fortis Group in total, or approx 4.99% of the issued shares with a total purchase consideration of EUR 2.11bn through Ping An Life Insurance Co. This has reached the upper limit of the shareholding percentage agreed by both parties.

On June 26, 2008 Ping An Life took up 7.5mn more shares of Fortis Group from the placement to avoid dilution of shareholding. Total shares held by Ping An Life reached 120,996,265 shares for a total purchase consideration of EUR 2.197bn (converted to RMB 23.874bn).

## Background on the Impairment

- n Negatively affected by the global financial crisis, Fortis Group's recent stock price experienced substantial decline.
- n Under prudent principle and pursuant to relevant accounting policies, Ping An Group intended to take impairment accounting treatment on the investments in Fortis Shares in the third quarter of 2008 financial report.
- n The marked-to-market losses, being approximately RMB15.7 billion, that had already been reflected in the equity of the Group, would be recognized as impairment loss in the income statement.

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## Impairment treatment will have impact to the current period profit/loss of the Group; yet the net assets value and the cash flow remain unaffected



- n As at June 30, 2008, the audited net asset value of the Group as disclosed in the 2008 interim report prepared under PRC Accounting Standards and the International Financial Reporting Standards were RMB83.378 billion and RMB90.420 billion respectively, which had already reflected the marked-to-market losses of the investments in Fortis Shares as at June 30, 2008.
- n Current period profit/loss will be affected: recognizing impairment loss of approximately RMB15.7 billion in the income statement of the 3rd quarter 2008. The above accounting treatment would impact the current period profit/loss significantly.
- n No impact to the net asset value per share and the cash flow position of the Group. The Group's net asset and embedded value have fully reflected the marked-to-market losses of investment in Fortis Shares. Impairment treatment will have no additional negative impact on PAG's capital adequacy and solvency margin.

## With sufficient capital, the impairment will have no material impact on the solvency margin of PAG



- n As at June 30th, 2008, aggregate cost of investment in Fortis Shares accounted for approx 3% of total assets.
- n Decline of Fortis stock price would have no material impact on PAG's solvency margin. According to the regulatory solvency requirement for insurance groups, PAG's solvency margin was 348.5% as at June 30, 2008 which had already reflected the marked-to-market loss in Fortis Shares.
- n By the end of Sept, 2008, PAG's solvency margin is expected to maintain at above 300% despite the increased loss from Fortis Shares during the 3rd quarter.
- n PAG has sufficient capital to support normal business expansions and execute its business strategies without any adverse impact on customers' interests and rights.
- n PAG plans to proceed the capital injection of RMB20 billion into Ping An Life Insurance Company of China, Ltd.

## Solid fundamentals, stable financial strength; and healthy growth in our core businesses



- n Insurance business maintains its fast and healthy growth. The premium income in the first 8 months has reached RMB 88.508bn, approx 30.8% increase over the same period of 2007. Our corporate annuity business has achieved a leading position in the market.
- n Banking business is steadily progressing with its nationwide expansion. Following the merger, the first non-Shenzhen branch (Quanzhou Branch) has been successfully established. Meanwhile, our credit card issuance achieved more than 1 million cards in-force by Sept 30.
- n Development of cross-selling is promising. Synergies from the integrated financial service model are becoming unveil.
- n Investment channels are further broadened; and the third party asset management business is progressing well.
- n Leading integrated operation platform provides strong support to cost control and business development.

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## Basic information on overseas investments of PAG



As at the end of 3rd quarter 2008, apart from the investment in Fortis shares, the carrying value of PAG's overseas investment portfolio mainly comprised of:

- n Shares and funds listed in the Hong Kong Stock Exchange amounted to : approximately RMB 7.594bn
- n Cash and bank deposits: approximately RMB 1.58bn

# Discontinue the Fortis Investment Management Transaction



- n On March 19 and April 2, 2008, PAG announced its potential investment of EUR 2.15bn for the 50% shareholding in Fortis Investment Management.
- n Given the current market situation, the conditions precedent of the transaction are not expected to be fully met and both parties agreed to discontinue the proceeding of this transaction.

## Asset & Liability Matching

- n Through global asset allocation, PAG intends to improve asset liability duration matching of insurance funds and manage cyclical risks by investing beyond a single economy/capital market.
- n Both PAG and Fortis are integrated financial groups starting from insurance and dedicated to 3-pillar businesses of insurance, banking and asset management. Investment in Fortis would not only deliver stable financial return but also enhance PAG's competitive advantages by introducing extensive and leading experiences in managing an integrated financial services provider, asset management and cross-selling.

# Factors that were being considered on our investment on Fortis Shares (cont'd)

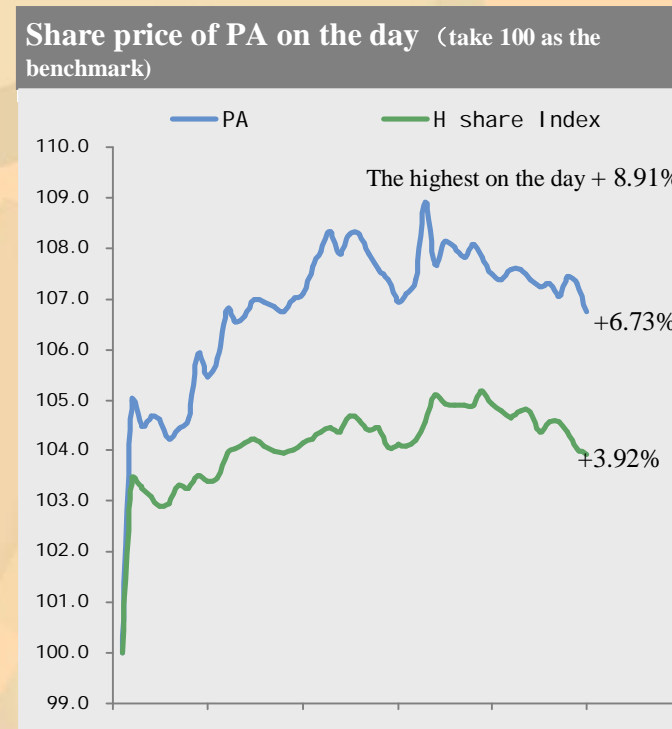
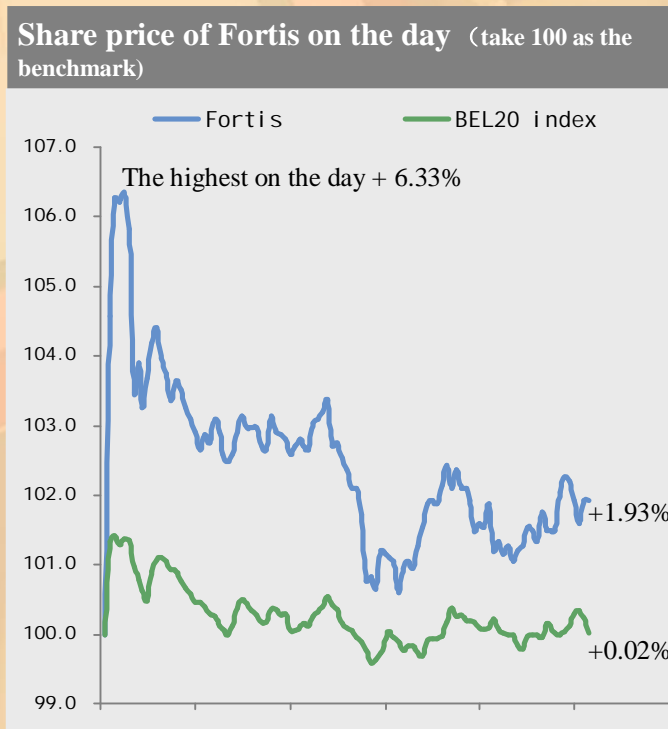
## Financial Returns

- n Fortis , the leading European financial Group, features sound corporate governance.
- n At the time of the investment valuation, Fortis P/B is 1.1x, compared with 1.8 to 2.5x P/B of HK banks and 3 to 4x P/B of domestic banks.
- n Fortis established a good performance track record and dividend history, Its dividend rate was up to about 6% at the time of the investment.
- n Through due diligence and financial modeling, the company and the financial advisor believed that this investment would bring stable and long-term returns to PA and match quite well with the long-term liability of traditional life insurance business.

# Investment into Fortis is a reasonable investment decision made by the company at the time for overseas investment exploration



- n For this investment, the company engaged first class professional institutions to conduct detailed due diligence. The whole process was reasonable and compliant.
- n After the public announcement of the transaction, the capital market reacted positively.



Source: Bloomberg information Nov 29, 2007

# Summary



- n Investment in Fortis is a beneficial trial and exploration for overseas investment of PAG according to the operational laws and characteristics of insurance industry.
- n As for this investment transaction, we have made prudent and reasonable investigation and judgment towards the investment target, however due to the extreme global financial turmoil, Fortis share price experienced a deep decline.
- n Based on the principle of prudence and the relevant accounting standards/policies, PAG intended to take impairment accounting treatment on the investments in Fortis Shares in the third quarter of 2008 financial report. Accordingly, it is expected to have a major impact on the profitability for this period.
- n We will carefully summarize the experience and lessons of this incident and review overseas investment more prudently. As China is our key market for business growth, we will focus on the integrated financial businesses and seize the opportunities of future development of China's financial sector and grow the business in China bigger and stronger.
- n The Group has sufficient capital and solid solvency margin; and the business foundation of the company is solid. All core businesses, namely insurance, banking, trust and securities are in a rapid, healthy development stage. PAG will dedicate to the long-term and sound development of the company to deliver long-term and stable returns for shareholders.

# Questions & Answers