

CPIC (SH601601, HK02601)
Stock Data (Ending Aug 31, 2016)

Total equity base (in million)	9,062
A-share	6,287
H-share	2,775
Total Cap (in RMB million)	238,045
A-share	172,703
H-share(in HKD million)	75,758
6-mth highest/lowest	
A-share (in RMB)	27.79/23.8
H-share (in HKD)	29.55/24.9

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Investor Relations Calendar

November 2-3, 2016
 CICC Investment Forum 2016
 Beijing

November 2-4, 2016
 BofAML China Investment Summit
 Beijing

November 2-4, 2016
 Credit Suisse Asia Financials Corporate
 Day
 Hong Kong

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Premium Income (Unit: in RMB million)

Premium Income	Jan-Aug	Changes	August	Changes
-P&C	49,164	1.9%	7,683	(1.6%)
-Life	82,234	31.6%	13,572	23.4%

BRIEFING

CPIC Hosts Call Conference for 2016 Interim Results

On August 30, CPIC successfully hosted its 2016 Interim Results Announcement. Drawing on international experience, the company conducted the release via call conference to facilitate investors/analysts participation and interaction. Over 200 investors/analysts from China's mainland, Hong Kong, Singapore, the US, Australia and India attended, doubling the number of participants for previous meetings.

The release started with Chairman GAO Guofu's review of the company's performance overview and results of its transformation initiatives, followed by President HUO Lianhong's presentation on each of the business segments. In the Q&A session, analysts/investors from 12 organizations such as Guotai Jun'an, Macquarie, Autonomous Research, Nomura, CICC, Credit Suisse, Changjiang Securities, Alliance & Bernstein, Haitong Securities, Morgan Stanley, Daiwa Securities and Goldman Sachs asked questions of common interest on the capital market, including the company's transformation, internet strategy, life business product strategy and cost of liabilities, measures to improve the combined ratio, development strategy for agricultural business, non-standard assets and risk management.

Below is a summary of the questions and answers.

1. Some of your competitors have diversified into banking, reinsurance and internet finance. Do you have similar plans?

A: We've begun to see differentiation in the development strategies of insurance companies based on their own priorities in recent years. CPIC remains focused on insurance while continuing to expand its insurance-based business portfolio. We also strive for coordinated development of both insurance and asset management business to deliver sustainable value growth.

2. What is your internet strategy?

A: Our internet strategy combines internet and insurance, seeking to better satisfy customer needs through the use of new technologies and business process engineering. To be more specific, at the customer end, we promoted the use of mobile internet technology. Our WeChat number has been ranked No.1 among customer interfaces of its kind. At the sales end, we've distributed 268,000 terminals of "Shenxing Taobao", a tablet-based on-line insurance system, with full coverage of the individual business. At the claims end, 76% of claims of CPIC P/C and 68% of POS requests of CPIC Life are processed on mobile apps. All these brought convenience to our customers and enhanced their experience.

Besides, we are seeking new breakthroughs in “internet + new areas”. For example, CPIC P/C is in the process of establishing an automobile insurance company with Baidu, pending approval of the regulator.

3. What is the reason for the NBV margin drop in the first half of the year?

A: For the year-beginning jump-start campaign, we sold a 4.025% product which garnered a premium income of 7.4 billion, and this led to a slight decrease in NBV margin for the first half of the year, at 29.9%. That level was still higher than that for the entire year of 2015. Besides, after the jump-start, the NBV margin began to pick up month by month, and the margin for 2016 will not be lower than that for 2015.

4. What is your product strategy in the second half of 2016? Will you sell higher guaranteed interest rate products again?

A: Our product strategy for 2H is to further accelerate the development of protection business such as personal accident, critical illness and participating whole life as well as traditional long-term savings products. For now, we have no plan to sell products with higher guaranteed interest rates or those with mid and short duration.

5. Recently the regulator issued a raft of policies targeting products of mid and short duration and insurance funds utilisation. What will be their impact on your company?

A: Insurers' development models began to diverge in recent years, and some new market entrants are aggressive in both product strategy and asset allocation. Our product strategy primarily centers on protection business, with short-term wealth management being only secondary. The primary positioning of our asset management is financial investment, supplemented by strategic investment. The cost of liabilities is under control, and we have never done any strategic investments using funds from the liability side. We persist in value-oriented strategies and position ourselves as a provider of risk protection and risk management, with asset management aligned with profiles of liabilities.

6. The individual business now has a share of over 80%, and that means limited room for further channel mix improvement. How can you ensure sustained value growth in the future?

A: Over the past 5 years, our strategy has been to focus on the agency channel and the regular premium business, and we have delivered remarkable results in business mix improvement. Now the individual business has become the key driver of both volume and value growth, accounting for 88.4% of total life GWPs in the first half of 2016. Admittedly, that could mean limited room for further channel mix improvement.

Going forward, we will drive sustained value growth through 2 initiatives.

One is to foster “targeted sales capability” based on customer profile delineation so as to promote up-sell. Our research findings show that a household in developed markets could have up to 9 policies. But of our over 70 million individual customers, less than 100,000 have 9 policies, meaning huge potential in up-sell. Another priority is sales force segmentation, i.e., traditional agents, financial advisers, renewal premium collection team (targeting mainly orphan policies) and the “Golden Magnolia” team for mid and high-end customers. In short, though the share of individual business is already high, its growth potential is still big.

7. There was a sharp headcount growth in the first half of 2016 in your agency channel. Where did the new agents come from? What about their quality? Do you believe that the industry’s agent number has already peaked?

A: The strong headcount growth was driven mainly by relaxation of qualification examination. But for us, that does not necessarily mean lower recruitment thresholds. On the contrary, we have in place stringent selection procedures and a complete training system. Now we have in total 650,000 agents, a rapid growth. But that did not come at the cost of quality. First, new recruits mainly came from urban areas or prosperous counties. Second, their age cohorts are shifting towards the X and Y generations (i.e., born in the 1980s and 1990s). Third, most of the new recruits have received a junior college education. In the first half of the year, the number of active and high-performing agents exceeded 200,000 and 100,000 respectively, a growth of over 70% for both, with their respective shares reaching new highs. That resulted from selective recruitment, good training and strong back-office support. Retention ratio and performance ratio were also good and the sales force mix has improved.

As to a sustainable industry headcount level, it’s hard to quantify. But compared with developed market such as Taiwan and Hong Kong, insurance penetration and the size of the sales force in China’s mainland still have room for growth.

8. You made big progress in “customer operation”. How did that support productivity improvement?

A: In the first half of 2016, agency productivity increased by 24.9%, the highest in the past few years. A major driver is the shift away from “one-off sales” to “long-term continuous service” as part of our efforts to promote “customer operation”. The initiative delivered benefits in 2 areas. One is more up-sell, and the other is improved skills among agents, which in turn lead to higher number of policies per customer and improvement in agency performance ratio and productivity.

9. Your life insurance contract liability reserves went up a lot. Why? Was it due to actuarial assumption changes?

A: During the first half of this year, except for the reserve discount rate for traditional insurance, other assumptions were mostly the same as those at the end of 2015. The change to the discount rate increased liabilities of our life business by 4 billion, and in turn reduced profits by the same amount. In short, the increase of over 50 billion in life business reserves was largely driven by premium growth.

10. What is the cost of liabilities for life business? Given low interest rates, how do you control the cost of liabilities?

A: The pricing interest rates for our par business range from 2% to 2.5%, and those for traditional business 2% to 4.025%, mostly between 2.5% and 3.5%. 4.025% was only sold during this year's jump-start campaign, and its share was limited. Stripping out the legacy negative spread book, the average pricing rate is about 2.5%, meaning the cost of liabilities is under control.

Though customers' needs are diverse, the demand remains strong for risk protection, such as health, pension, and PA with high sum assured. The key thing is to find the right way to approach customers and improve the sales success ratio. As long as we remain focused on traditional protection-type business, the cost of liabilities can be kept under control.

11. How are the core channels of your automobile business doing? How do their combined ratios compare to those of the other channels?

A: As early as last year, CPIC P/C developed the "3+N" strategy for automobile business, and "3" here refers to telemarketing & internet, cross-sell and car dealerships, targeting different customer segments. To be specific, dealerships focus on new customers, and telemarketing & internet, as our own distribution channel, targets high quality personal lines customers, while cross-sell is a dedicated channel for CPIC P/C on the back of resources sharing within CPIC Group.

In the first half of the year, the core channels were doing far better than other channels, with a premium growth of 7.8% and their share of automobile business going up by 2.5 percentage points. At the same time, their combined ratios were also better, being the key contributor of the improvement of overall combined ratio for automobile business, at 98.2%.

12. The expense ratio went up by 3.6 percentage points. Why? What about the expense ratio of the core channels of automobile insurance?

A: Since the launch of commercial automobile insurance reform, the competitions for high quality customers have intensified, leading to a sharp increase in the industry's overall expense ratio. CPIC P/C, while benchmarking the industry on the expense ratio, established a province differentiated pricing model and improved matching between business quality and acquisition costs, which helped with improvement in both business quality and combine ratio.

Though higher than that for the first half of last year, the expense ratio

was still lower than the industry average. Our resources allocation centered on the 3 core channels of telemarketing & internet, cross-sell and car dealerships. In the first half of the year, the premium growth from the core channels was much higher than that of the overall automobile business, with their share going up by 2.5 percentage points.

13. Your combined ratio improved on the back of loss ratio going down by 3.7 percentage points. But the loss ratio for settled claims went up. Could you help us understand this?

A: First, the loss ratio covers both claims settled and those outstanding. Second, the increase in claims settled and decrease in outstanding could be impacted by claims turnaround. In the first half of the year, we stepped up claims management and considerably increased the proportion of claims settled, hence a year-on-year drop in net amounts of outstanding claims brought forward.

14. All of the top 5 non-auto business lines incurred underwriting losses except agricultural insurance. What will be done to achieve and when can we expect a turnaround?

A: We adhered to the strategy of “improving quality, enhancing foundation and boosting long-term growth potential” in the first half of 2016, and made some progress in the business quality control of non-automobile insurance, with big improvement in its combined ratio. The ratio went down from 112.6% in 2014 to 108.9% in 2015, and then down to 105.6% for this reporting period amid worsening combined ratio of the industry. In particular, the combined ratios of major business lines all improved. The loss ratios of property, liability and accident all fell to a 3-year low, pointing to continued improvement in the underwriting profitability of these traditional business lines.

Generally speaking, given the relatively long business cycle of non-automobile insurance (while automobile business is mostly personal lines business which offers some degree of risk diversification), it takes time for improvement in business quality to translate into better combined ratios. The non-automobile business also faces the challenge of intensified competitions due to weak demand for traditional business against the backdrop of economic slowdown, which led to decrease in premium adequacy, obviously not helping with the combined ratio.

As for measures to improve its profitability, first, we'll continue our efforts to improve the business mix of major non-automobile business lines. Second, we will step up the development of profitable and high quality business. Third, drawing on the experience of auto business, we will roll out the province differentiated pricing mechanism in order to improve our capabilities in risk selection and pricing. Fourth, we will accelerate the development of emerging business lines. Fifth, we will step up disaster prevention and mitigation. Sixth, we will continue to enhance claims management.

We have confidence to further improve the combined ratio of

non-automobile insurance and deliver a turnaround as soon as possible.

15. Your agricultural business grew much faster than the industry. Why?

A: In H1 our agricultural business grew by 58.3%, 50 percentage points higher than the industry average, as a result of the following initiatives. First is expansion of business areas. We obtained qualifications for government-subsidized agricultural insurance in Jilin, Sichuan and Shanxi. We now operate in 24 provinces through 34 branch offices, and of this, 24 branches have the qualification to carry out government-subsidized agricultural insurance in 19 provinces. Second is using new technologies to improve customer services. We rolled out “e-agricultural insurance system 1.0” and have just released an upgraded version, making us a market leader in the use of new technology. Third, we stepped up product innovation and in particular, combined insurance and futures, we developed index insurance, price insurance, output insurance, products targeting local insurance needs and generated a premium income of over 200 million. Fourth, we stepped up service network infrastructure-building in the countryside to improve customer service capabilities.

16. How is your capital injection into Anxin Agricultural Insurance going?

A: The capital injection into and consolidation of Anxin Agricultural Insurance have recently been approved by CIRC, which is disclosed in our interim report. After the capital increase, CPIC P/C will have over 52% of the stake. Next, Anxin Agricultural Insurance will remain focused on the agricultural business and enhance its innovation capabilities while further promoting its synergy with CPIC P/C.

17. What is the reason for the drop in your net investment yield? What will be done to stabilize it?

A: In the first half of the year, our net investment yield was 4.6%, down by 0.3 percentage points from the same period of last year, and in line with the industry trend. The decline was caused mainly by lower yields on new money and re-investments in a low interest rate environment. Going forward, our asset allocation will be largely stable, and we may moderately increase the share of non-standard assets. As for equity investments, we'll increase the proportion of stocks with high dividend yields in order to maintain a stable net investment yield.

18. The share of your non-standard assets increased quite a lot. What can we expect of your asset allocation in the future?

A: In the first half of 2016, the share of non-standard assets did increase, but allocation of broad asset classes remained stable. A low interest rate environment brings with it more uncertainties, and that requires a largely stable asset allocation.

On the other hand, there were also adjustments in each broad asset class. As for corporate and enterprise bonds, we exercised caution, and for now will not dramatically increase our risk appetite. Only when the credit risk is fully reflected in the credit spread will we change strategies for this asset class. The strategy for equity investments since 2012 has been to focus on large caps with low valuation and high dividend yields. This strategy helped us stand the test of the market volatility over the past 5 to 6 years. We'll persist in this core strategy going forward while diversifying satellite strategies such as tranche A of structured funds.

19. What are your non-standard assets mainly composed of? What about their yields? Will you further increase the share of non-standard assets?

A: New investments in non-standard assets in 1H of this year were mainly alternative assets and trust plans, with an average yield of around 4%. Given the de-leveraging of the financial services sector, room for further increase of this asset class could be limited.

COMPANY UPDATES

● CPIC Life wins call center award (20160812)

On August 11, the 2016 China Call Center Summit & Call Centers of the Year Award Ceremony was held in Beijing. CPIC Life's Customer Service Center 95500 wins the Award in the Customer Experience Category, pointing to the company's achievements in customer-oriented strategic transformation and an even stronger brand name.

The competition, the 12th since inception, was hosted by China Call-Center & CRM Association (CNCCA) under the auspices of the Ministry of Industry and Information Technology of China, with an aim to recognizing organizations and individuals in the call center industry with outstanding achievements in customer experience, service innovations, operational management, CRM, marketing and consulting.

● CPIC Life granted AA rating for customer service (20160822)

On August 22, during a briefing by CIRC on its rating of customer service of insurance companies in 2015, 6 life insurers were ranked AA (highest) for overall service quality, with CPIC Life occupying the 2nd place.

● CPIC sets up credit insurance sales JV with Allianz (20160906)

On September 6, CPIC & Euler Hermes Insurance Sales Co. Ltd. was inaugurated in Shanghai, marking a strategic move by CPIC Group and Allianz in tapping the potential of China's credit insurance market. The establishment of the JV is also a major initiative by CPIC P/C to boost specialization of its non-automobile business.

● CPIC P/C makes strategic investment in Metromile (20160922)

On September 22, 2016, CPIC P/C and Metromile, a US-based provider of UBI products jointly announced their decision to form a strategic partnership with CPIC P/C investing USD 50 million in Metromile. It was an important move on the part of CPIC to beef up investments and emulate international best practices in UBI. The emergence of new technologies challenges the existing business model of automobile insurance. The strategic investment will lay a sound foundation for future cooperation between CPIC P/C and Metromile. In particular, the 2 companies will work together to innovate automobile insurance products, improve customer services via UBI technology, big data analytics and service digitalization.