2016 Annual Results Announcement -- Q & A
(March 2017, Shanghai)

1. CPIC paid a dividend of 0.7 yuan per share for 2016, with a payout ratio of up to 52.6%. Could you elaborate on the reasons and the future trend?

A: Since the IPO, the Company has been pursuing sustainable value creation and decent shareholder returns. In terms of **value creation**, the Company's embedded value per share rose from 9.71 yuan in 2007 to 27.14 yuan for 2016, with a CAGR of 12.1% (the only exception being 2008 due to the financial crisis). As for **shareholder returns**, dividend per share was 0.3 yuan for 2007-2009, 0.35 yuan for 2010-2012, and above 0.4 yuan for 2013-2015. Since the solvency margin ratios of the Group, CPIC Life and CPIC P/C were all above 250% in 2016, the Board recommended a dividend of 0.7 yuan per share. Going forward, the Company will continue to create value and stable returns for shareholders.

2.The Group's consolidated net profit dropped 32% YoY, a much bigger decline than that of its main subsidiaries (-19.3% for CPIC Life, -14.8% for CPIC P/C). What are the main reasons?

A: There are mainly two offsetting factors involved here. First, there is a time difference between profit realization and dividend payout on the asset management products issued by CPIC AMC. Accordingly, profit/loss was booked across different years between the Group consolidated and subsidiaries' accounts. Second, there was profit distribution of realized gains on investment properties from earlier years, another reason for the time difference in profit-booking between Group consolidated and subsidiaries' separate accounts.

3. What accounting estimates were adjusted for 2016? Were there any changes to the liquidity premium?

A: The discount rate curve for traditional products dropped considerably for 2016. Taking into consideration the changes to liability profile and the spread between financial bonds and treasury bonds, we raised the liquidity premium by 10 basis points. The effect of the above two adjustments on the Group's pre-tax profit was 9.292 billion yuan.

4. What is the Company's current liquidity premium? The CIRC has recently adjusted rules on discount rates for assessing insurance contract liabilities. What impact will it have on CPIC's future earnings?

A: Our liquidity premium was raised from 35 basis points in 2016 to 45 basis points for 2017, similar to those of other listed insurers. CIRC has introduced a counter-cyclical modifier into its new regulation, which we believe can better accommodate the profiles of insurance liabilities and benefit the Company's business operation.

5. Under C-ROSS, the Company's new business value for 2015 grew by only 1.2%, much lower than the peers. What are the main reasons for that? What lines of business have larger diversification effect for the embedded value?

A: Under C-ROSS, the Company's new business value for 2016 reached 19.041 billion yuan, up 56.5% YoY. The restated new business value for 2015 (1.2% higher than the original, or RMB 12.170 billion vs RMB 12.022 billion) was a result of the assumption changes (-5%) and shift to C-ROSS (+6.2%). The diversification effect differs from product to product. In general, higher margin business tends to have better diversification effect. Upholding protection as the key value proposition of insurance, the Company gives priority to meeting customer needs with suitable products, which also improves the effect.

6. What are the main reasons for the fast growth of CPIC's life business in 2017?

A: In 2017, our life business maintained rapid growth. By the end of February, GWPs of agency channel increased by over 50%, and regular premiums accounted for 95% of total new business. In particular, the share of 10-year-pay-and-above products grew considerably for new business.

Three factors contributed to the good performance during the jump-start campaign: **first, fast growth of the agency channel.** Our monthly average number of agents exceeded 800,000, and the number of active and high-performing agents grew 78.8% and 94.6% YoY respectively. Besides, the number of policies per agent and average policy size also increased considerably, indicating much better productivity. **The second factor is product strategy,** which is customer-oriented and focuses on protection and long-term saving products. **The third reason is "customer operation",** i.e, both the acquisition of new customers and up-sell to existing customers.

7. Despite fast growth of agency headcount, your productivity was lower than that of your peers. Why? How is your retention rate of agents? What will the Company do to improve agent management?

A: Since the IPO, CPIC has been focusing both on the number of agents and their productivity. The two sometimes grew at the same level, but sometimes not. Productivity growth has a lot to do with product mix. Given our focus on protection and long-term savings products, the average policy size tends to be lower.

Up until 2015, with moderate agency headcount growth, retention was improving. In 2015-2016, due to the rapid growth of our agency force, the rate dropped slightly, but still better than the industry average.

The measures to strengthen the management of agents include: first, we raised the agent selection criteria by strictly enforcing PCAAS (P-productivity, C-city, A – activity, A – age and S – subject of the new recruit) recruitment standards and upgrading the "Sharp Eye" (慧眼測試) selection system. Second, we focused on agent attendance, activity management, basic training, and retention. Third, we strengthened our training system (including skills training such as “9 policies for full protection”) to enhance our agents’ skills to serve customers.

8. What is the share of interest rate spread, mortality and morbidity gains, and expense margins in profit? Do you plan to increase the share of mortality and morbidity gains and expense margins?

A: Under the new accounting standards, profit comes from the amortization of residual margin, release of risk margin and changes to model assumptions, among which amortization of residual margin is the core source of profit. It takes into consideration interest rate spread, mortality and morbidity gains, expense margins, and surrender margins. The amortization model is locked at the time of policy issuance, and thus not affected by capital market volatility. Thanks to our focus on protection and long-term savings products, the amortization of residual margin rose steadily, with a compound annual growth rate of 15%. As at the end of 2016, total margin rose 30.6% from the end of the previous year, laying a solid foundation for future profitability. Going forward, we will further develop protection business and expand source of profit from mortality and morbidity gains and expense margins so as to reduce our reliance on investment returns and enhance our capability to withstand capital market fluctuations.

9. What do you think of the Company’s current life business mix?

A: The existing product mix of CPIC’s life business is good and in line with the Company's value-oriented business philosophy. Participating insurance accounted for about 64% of total premiums of 2016, and traditional products made up around 30% (including about 10% of health insurance). The share of protection products continued to rise in recent years, and we will continue to promote protection products in 2017.

10. What is the liability cost of your life business? What is the projection for 2017?

A: The control of liability cost in a complicated interest rate environment has been a hot topic. We established an asset-liability management mechanism to enhance internal control of liability cost, and took a prudent approach toward pricing interest rates. After rate liberalization, the pricing rates for some products increased a little, but the overall effect was modest. Currently, the weighted average pricing interest rate for life business is 2.88%. And we believe it will remain flat or even drop a little in 2017.

11. CPIC has set up a health insurance company. What is your plan for developing health business?

A: **First, we will focus on developing long-term critical illness insurance**, a key area for CPIC Life. Second, we will continue to **explore medical insurance**. Although insurers set the price of medical insurance, they have very limited control on claims, the health care industry or customer behavior. How to meet customer needs in the future? How to price products properly to so that they can be profitable or at least break even? We need to find answers to those questions. Third, **the government is promoting LTCI**. With pilot projects across China, it will be more standardized and offers great potential for growth. Based on this analysis, we will make great efforts to build an eco-system and explore potential opportunities. I believe it has a bright future.

12. We saw great improvement in the combined ratio of CPIC's auto business in 2016. What measures were taken?

A: In 2016, the Company adhered to the development strategy of "improving quality, enhancing foundation and boosting long-term growth potential" and the "3+N" core channel development strategy, and enhanced our risk pricing and resource allocation capabilities with tools like the dynamic risk pricing model and resources allocation optimization. The combined ratio of our auto business was 97.2% for 2016, down 0.8pt YoY and almost 2pt lower than the industry.

13. What's your take on the auto insurance market in 2017? Could you elaborate on your strategy for auto business?

A: In 2017, the auto market are influenced by 3 factors: firstly, the sales of new cars will continue to grow, but at a slower pace. Secondly, the rapid development of the internet will have a great impact on the traditional auto insurance market. Thirdly, the deregulation of commercial auto insurance market will move forward.

As to our 2017 auto business strategy: first, we will further strengthen strategies in relation to core channels development, customer segmentation and risk management to secure the improvement in auto business results; secondly we will enhance our service to attract more high-quality customers; thirdly we will push forward the preparation for the Internet auto insurance company; and fourthly, we will leverage our strategic investment in Metromile to introduce, as conditions allow, some American auto insurance products into China's market to enhance customer experience. Through the above measures, we aim to realize higher underwriting profitability and achieve a balance between development speed and quality.

14. What were the main reasons for the non-auto insurance underwriting loss for 2016? How will you improve it in the future?

A: In 2016, the overall performance of CPIC P/C was good, but the non-auto insurance encountered some difficulties. The main reasons were: firstly, due to frequent natural disasters, claims payout was higher than previous years; secondly, due to fierce market competition, premium adequacy level decreased; thirdly, non-auto business usually has a long business cycle, for example, claims development and the rebate from reinsurers tend to take a longer time; fourthly, unlike auto business, non-auto business deals with more concentrated single risks.

In 2016, the Company improved its business mix by shedding bad business and developing business in new areas. With a much lower claims ratio, accident insurance became the first non-auto business line to achieve underwriting profitability. Our non-auto business is on the right track and catching up with the peers. The management is confident about improving our non-auto business in 2017.

15. Your agricultural insurance enjoyed rapid growth in 2016. What were the main reasons for that? And how do you see its future?

A: The premium income of our agricultural insurance increased 66.3% YoY mainly because: first, we promoted the **"e-agricultural insurance"** to enhance our differentiated competitiveness; secondly, we launched **innovative products** such as the "insurance + futures" model jointly developed with Anxin Agricultural Insurance and the Hebei Province-based integrated development model covering governments, banks, enterprises, farmers and insurers; thirdly, we have **expanded our agricultural business** to cover 28 provinces, almost nation-wide; fourthly, we made **breakthroughs in major rural provinces** like Henan, Hebei, Xinjiang, and Inner Mongolia; lastly, we **deepened Anxin's integration and achieved synergy** in many provinces.

We believe that the agricultural insurance business is now in its second "golden period" of development. We hope we can seize the opportunities of government-sponsored agricultural insurance, as well as commercial agricultural insurance including innovative products such as income and price index insurance. Our efforts in this regard have won recognition from relevant departments of the central government.

16. What is the Company's investment strategy for 2017? How will you handle the pressure of asset re-allocation in 2017?

A: CPIC's investment strategy has two pillars. One is **strategic asset allocation.** Compared to peers, the guaranteed rates of our life business were lower than industry average, thus reducing the pressure from the liability side; the other is **adhering to prudent investment, value investment and long-term investment. Between** 2007 and 2016, the compound total investment yield reached 5.7%, and the compound comprehensive yield stood at 5.4%, both above the long-term investment return assumption of 5.2%.

On the **fixed income** side, since the beginning of 2017, short-term interest rates rose faster, but the long-term interest rate remained stable, while the credit spread on bonds with AA credit-ratings was very small. Based on this judgment, we would increase bond trading gains while enhancing the control of credit risk. As to **equity investment**, we would focus on value stocks and H-shares while emphasizing the control of positions.

The total amount of funds reaching maturity in 2017 is similar to that in 2016. We will stick to the above investment strategy in our asset allocation for 2017.