Q & A for 2017 Interim Results Announcement

(Shanghai, August 2017)

1. Q: The market likes your strategy of focusing on insurance and pursuing sustainable value growth, which is also your key differentiator. Could the chairman elaborate on the strategy of being "consistent" and "different" as you put it in the chairman's report?

A: The insurance sector has performed very well on the stock market recently, which shows optimism and confidence among investors. Indeed, the industry is facing an important window of opportunity. With rising income level, demographic shift and urbanization, the Chinese people's demand for insurance has been growing rapidly. On the other hand, the government wants a bigger role of insurance in the provision of public services and social governance. To seize these major development opportunities, CPIC will continue to move towards "the right direction". Our long-term strategy, as we put it in the interim report, is to adhere to the central value proposition of insurance, namely, long-term risk management and protection, which calls for our commitment to the core business of insurance and be good at it. The approach we'll adopt is to build on the achievements of the previous transformation initiatives and launch “Transformation 2.0”, focusing on 5 central tasks, "talent development", "digitalization", "enhancing synergy", "improving strategic control" and "diversifying insurance-based business portfolios". "Talent development" centers on organizational restructuring for more efficiency and flexibility, and in particular building a strategic talent pool with accommodating HR management mechanism to attract and retain talented people, enhance employees’ engagement, and foster higher productivity. "Digitalization" seeks breakthroughs in customer experience, decision making, collaborative sharing of digital tools, and digital talent and leadership. "Enhancing synergy" is to deepen collaboration between CPIC subsidiaries in terms of customers, channels and resources for integrated development. By "improving strategic control", we focus on redefining the positioning and management processes of the Group, its subsidiaries and branches to strengthen centralized strategic control, streamlining the decision making process to improve efficiency. “Diversifying the insurance-based portfolio” is to optimize resource allocation by giving priority to major cities, and stepping up investments in health and pension business against the backdrop of supportive government policies. In a nutshell, "consistent" means to stay true to our original mission. "Different" means to deepen the reform and upgrade the transformation.

2． Q: Your life NBV margin grew continuously over the past 5-10 years. In 1H 2017, it already reached 40.6%. Any room for further improvement in the next 3-5 years? And how?

A: Over the past 5 years, in line with industry trend, CPIC Life adhered to value-oriented strategies and delivered sustained NBV margin improvement, from less than 30% in 2015 to a record 40.6% in the first half of 2017, much higher than the industry average. Going forward, our strategy will be consistent, and our initiatives will focus on 4 priorities to achieve an even higher margin. First is to press ahead with business mix improvement and further increase the share of long-term protection business. Second is further diversifying our product offering. We are in the process of formulating product strategies for Q4 2017 and 2018, essentially based on customer insights and customer segmentation. Third is to further extend payment duration, and lastly, and most importantly, continue to enhance the skills for selling long-term protection business among agents. In the first half of 2017, new business from long-term protection grew by 73.8%, pointing to improvement in agent skills. In particular, 5-year and 10-year as a share of new premiums from agency channel continued to grow. Now 10-year’s proportion has reached 65.7%. We believe that through the 4 measures outlined above, the margin could maintain the momentum of steady improvement.

3． Q: What metrics does the new chairman focus on for life, property and casualty and asset management respectively? Any plan to revise the KPI system and why?

A: We will continue to uphold protection as the key insurance value proposition. The central government’s Financial Work Meeting calls for more focus on development quality and efficiency, and our “Transformation 2.0” is an initiative to translate such business philosophy into reality. For life insurance, we focus on NBV margin and NBV growth rate. For property and casualty, the priority is combined ratio and underwriting profitability. As for asset management, the key metric is whether the investment return could exceed the cost of liabilities. At the Group level, KPIs center on resource sharing and collaboration, such as the number of policies per customer and growth of customers, a measure of customer recognition. We also look at and track indicators measuring business quality, like the share of core channels for auto insurance, the proportion of high-quality customers and long-term protection business for life insurance.

4. Q: There was strong headcount growth for the agency channel in the first half of 2017. Could this momentum continue into the second half of the year? By how much do you think you can improve the productivity, and how?

A: Headcount growth was 49.5% in the first half, in line with the industry trend. In the second half, we will remain committed to quality growth. We closely monitor indicators like the share of active and high-performing agents as well as improvement of performance ratio. Measures to be rolled out: 1. Revamping KPIs to drive productivity gains and enhancing autonomy of manager-level agents so that the sales force mix can continue to improve. 2. Strengthening the agency honor system and in particular the cultivation of top agents via the promotion of MDRT and other programs. 3. Enhancing skills of the sales force through increased autonomy of managers and daily training. 4. Further improve capabilities in new customer acquisition and up-sell, optimize high-end customer service system to enhance customer experience. The agency channel has worked out a road-map to increase the integrated operation of sales force, products and customers. 5. Increase the penetration in urban areas with organizational restructuring and reforms.

5. Q: Your non-standard asset (NSA) increased a lot as a share of total invested assets. Why? How do you control the risks? What is your strategy for NSA going forward?

A: We increased the allocation towards short-duration wealth management products (WMPs) issued by banks mainly to seize the opportunity of rising market rates earlier this year, especially in January, March and April. The yield on such WMPs was around 5%, issued by SOE banks and national joint-stock banks. Over the past 3 years, our peers considerably increased the share of NSA in the first 2 years, while our share remained much lower. So in spite of a fast increase in the first half this year, the share of NSA for CPIC is only on a par with that of our peers. In the context of China's economic restructuring and deepening reform, NSA, especially infrastructure debt investment schemes, asset-backed securities and trust plans have become more attractive. Of course, we will continue to exercise stringent control of credit risk, paying close attention to underlying assets, the credit-rating of issuers and credit reinforcement measures. Most of the issuers of NSA also issued standard products like bonds on the inter-bank and exchange market. Generally speaking, given the long-term profile of our liabilities, increased allocation of NSA helps to improve the overall investment yield.

6. Q: The share of long-term protection business grew tremendously in the first half of 2017, which drove the growth of the residual margin. But the life solvency margin ratio did not improve. Why?

A: In the first half of 2017, long-term protection business sold well, which helped with our solvency margin ratio. Of course, the ratio is also determined by other factors, such as the required capital and the changes to risk exposures. Besides, the shareholder dividend pay-out also impacted the actual capital, and rising interest rates impacted the value of assets. Overall, our solvency is stable and in the comfortable zone, and is sufficient for current risk exposures.

7. Q: In the first half of 2017, some of your peers raised their shareholder dividend payout ratio sharply. Given your strong solvency, would you follow it?

A: Since listing, we have adhered to prudent and stable business operation, committed to sustainable value creation and good returns for our shareholders. Overall, our payout ratio has been on the steady rise over the past years. This year marks the second year of C-ROSS implementation, and recently CIRC has officially started Phase II of C-ROSS, covering 3 central tasks, i.e., improving regulatory rules, enhancing implementation mechanisms and stepping up regulatory co-ordination, which can be further divided into 25 agenda items. The new agenda will impact the calculation of capital, liquidity supervision, solvency management capability evaluation standards and comprehensive risk rating standards. We will closely follow its developments, and continue to improve capital efficiency to the extent that healthy solvency ratios can be maintained, while continuing to create value and generate sustainable returns for our shareholders.

8． Q: In the first half of 2017, the combined ratio of non-auto insurance improved a lot, realizing underwriting profits for the first time in 3 years, with pick-up in top-line growth. Why? Is this improvement sustainable?

A: 2017 is the third year since we floated the strategy of "controlling business quality, enhancing foundation and boosting long-term growth potential". Thank to two years of hard work, we have made good progress in business quality control. As for non-auto insurance, we focused on improving the capabilities in risk control and business management and realized underwriting profits for the first time in 3 years, with vast improvement in both loss ratio and expense ratio. In the second half of 2017, we will stick to the current business strategy, ensuring good claims service in the context of frequent natural disasters, while promoting innovation in emerging business lines and new products to tap market niches.

9． Q: What is your view on the impact of fin-tech on insurance? Could you elaborate on your plans in relation to the "digitalization" initiative?

A: Fin-tech is now a hot topic, and deserves continued attention going forward from financial institutions. With the rapid development of big data, cloud computing, mobile internet, the internet of things and AI, as well as their specific applications in the insurance industry, fin-tech will have profound implications for business process re-engineering and product/ service innovations, helping to diversify the way customers are acquired, and enhance customer experience, operational efficiency and risk management. In the long run, it will bring major opportunities and challenges for the industry.

The Board of Directors has decided to implement digitalization in an all-around way, focusing on 5 priorities: first is digital terminals and key customer journeys, using digital terminals to integrate key customer journeys to realize interaction between terminals; second is the digital supply chain, making use of digital terminals for supply chain innovation and process re-engineering; third is computing, including infrastructure like CPIC Cloud; fourth is agile development mechanisms to better respond to customer needs; fifth is digital security, which requires a full review of risks to improve the framework, standards and processes for risk control, supervision and accountability. In a nutshell, digitalization will start with current gaps and focus on improvement of products and key capabilities to meet customers needs. Recently we have also launched programs across business segments to enhance customer loyalty. A case in point is the establishment of an individual insurance account encapsulating all CPIC insurance businesses under the One CPIC Family. We believe this program will continue to deliver results.

10. Q: What is the impact of the pricing reform of auto insurance on the industry? Is the top-line growth of your auto business sustainable? What is your view on the sector's competitive landscape?

A: 2017 marks the first anniversary of phase I of auto insurance pricing reform, which has impacted players by varying degrees. We continued to uphold the “3+N” channel strategy, and used new management tools like expected loss ratio and policy year combined ratio to optimize resource allocation and business quality. So we were less impacted than the industry. Phase II has been kicked off in July. The impact could be in two aspects. One is lower premium adequacy, which, on a static basis, means higher combined ratio. The other is intensified competition for high-quality business. Of course, CIRC issued Document 174, which is good news for the industry’s healthy development, and we welcome it. Going forward, CPIC P/C will continue to enhance business quality control, and risk management, uphold underwriting profitability and compliance, while using new tools to improve resource allocation to boost the development of core channels. During the process, we will step up claims cost control, improve claims service and the overall management level.

11． Q: Earlier this month, CIRC issued new standards on ALM capability evaluation. How would this impact the industry, as well as your investment, products and solvency?

A: The new regulation came out against the backdrop of “returning to the basic value proposition of insurance”. Given the long-term nature of life insurance liabilities, the new document calls for the building of capability in long-term ALM, which is essential to the industry’s long-term and healthy development. CPIC has been leading in the establishment of relevant mechanisms and capacity-building. For example, we have put in place a closed loop of ALM system starting with products, laying a sound foundation for value management and prevention of major risks. In capacity-building, we have covered SAA and TAA as well as daily investment, with close monitoring and tracking based on profiles of liabilities. We also made big investment in ALM IT system, well positioned for further improvement. We have reviewed the new standard, and are confident that there is overall compliance. That being said, there is still room for improvement in certain specific indicators or rules. Going forward, we will use this as an opportunity for us to further enhance capabilities and pave the way for the company’s long-term and sustainable development.

12. Q: Last year, health insurance market experienced rapid growth. But this year there was a drop in growth. Why? How is your health insurance business doing?

A: Statistics released by CIRC indicate that the strong growth was largely driven by investment-type business, or the so-called long-term care insurance which was essentially an investment product. Given tighter regulation this year, the growth this year mainly came from real health protection needs, and the investment business shrank a lot, dragging down the market growth. We believe this can better satisfy customer needs and is good to healthy development of the market.

13. Q: Could you talk about the EV movement and the variance of investment and operational experience?

A: There was positive operational variance in 1H, due to rapid life business development and improved mix. Of course, insurance companies may have different treatment methods, and in spite of our relatively conservative method, the variance was positive. Variance of investment was also positive. To clarify, that may not seem entirely consistent with comprehensive investment yield number, mainly due to annualized factors.

14. Q: In the first half of the year, the share of par business reached 65%, with relatively low margin. Given new product regulations, would you shift towards traditional insurance? And

will that impact your agency productivity?

A: In the context of “returning to protection”, the regulator has issued a raft of policies or rules to prompt a focus on protection as the central insurance value proposition, including a flurry of new product regulations like the one which will enter into force on October 1. The emphasis on protection ultimately seeks to meet customer needs, which may range from risk protection to financial planning, corresponding to traditional and par insurance, with different contribution to value growth. In 1H 2017, traditional insurance as a percentage of NBV continued to increase, due to higher NBV margin, while the contribution from par business was mostly stable, with its margin more or less the same. We believe this is aligned with our strategy and customers needs. Going forward, we will adhere to such a strategy for 2H and next year’s Q1 sales campaign, focusing on long-term risk protection and long-term savings, while balancing between stability and improvement of NBV margin, top-line new business growth of the agency channel and NBV growth, in hope of outperforming the average of our listed peers.

15. Q: The new president (pending approval from CIRC) has extensive experience in banking. What is your view on CPIC’s

future strategy? Any plan to diversify into banking? Do you think your experience as a banker will help with your current position as an insurance company senior executive?

A: As a professional manager, my past experience does not necessarily have any bearing on the current strategy of my employer. My task, as the new president, is to lead the management and faithfully implement the strategy formulated by the board and try our best to fulfill the business targets. Going forward, I will look at insurance in the context of the wider financial services industry. Over the past 2 years since I joined CPIC, I have strongly felt 3 things. First, insurance plays a unique role in China's financial market. Second, it has a very promising future, and will see rapid development. Third, unlike banks, insurance companies offer help to those in difficulty. I am personally more confident of the future of insurance, and in particular, CPIC. Of course, in daily business operation, we'll stay the course, remain focused on insurance and strive to be good at it.

16. Q: You gave first priority to combined ratio over the years, and amid deteriorating underwriting profitability of the industry, delivered continued improvement of the indicator. Going forward, will you continue to lower the ratio, or you think

it is already good enough ?

A: Maintaining a healthy level of underwriting profitability, and on top of that developing new business and providing good customer services will be a perennial theme for us. There is not necessarily a trade-off between underwriting profitability and market share. As a matter of fact, they reinforce each other. Over the past 2 years, while we continued to improve business quality and in turn, the underwriting profitability, we have also intensified efforts to grow new businesses targeting different market niches. In particular, you may have noticed that our agricultural insurance has grown by leaps and bounds in 1H this year, with healthy underwriting profitability. In short, maintaining a healthy level of underwriting profitability, coupled with progress in new business development and a first-class customer service has been, and will always be our mission.

17. Q: The movement of reserve discount rate had a big impact on the profits of your life business. What about the second half of the year? Do you think the impact will lessen, in particular given the new rules on 750-day moving average issued by CIRC?

A: In the first half of 2017, the basic curve of life insurance reserve discount rate dropped twice as much as that for 1H of last year. But given the new discount rate rule, and with changes to the comprehensive premium on top of the basic curve, the impact was almost the same as that for the first half of last year. Assuming the basic curve maintaining its current level, and normal changes to the premium, the impact on profits would be limited for the second half, 2017.