Investors' Newsletter（February 26, 2018） Vol. No. 2 in 2018

CPIC（SH601601, HK02601）

Stock Data (ending Jan 31, 2017)

Total equity base (in million)	9,062
A-share	6,287
H-share	2,775
Total Cap（in RMB million）	337,287
A-share	248,525
H-share（in HKD million）	110,168
6-mth highest/lowest	
A-share (in RMB)	47.76/33.63
H-share (in HKD)	41.85/33.45

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April 3, 2018

2017 Annual Results Announcement

Shanghai / Hong Kong

Investor Relation Department

Tel: 021-58767282

Fax: 021-68870791

E-MAIL: ir@cpic.com.cn

Add: 40F, 190 Central Yincheng Rd., Shanghai, P.R. China, 200120

Contact: Katrina Xie

Tel: 021-33961157

E-MAIL: xieyusheng@cpic.com.cn

Premium Income (Unit: in RMB million)

	Jan.	Changes	Jan.	Changes
P&C	12,915	17.59%	12,915	17.59%
Life	50,194	24.44%	50,194	24.44%

Company Updates

- **CPIC launches new critical illness product**

The product, launched on February 3, 2018, offers cover against 60 terminal illnesses, with the option of "loss of ability of self-care". Given its low premiums, the product has been warmly received by customers since its debut.

Product description

<table>
<tr><th colspan="3">Xingfu Ankang Critical Illness</th></tr>
<tr><td>Age of the insured</td><td colspan="2">30 days–60 years</td></tr>
<tr><td>Insurance period</td><td colspan="2">10/15/20/30 years; 60/70/80 years/whole life of the insured</td></tr>
<tr><td>Mode of payment</td><td colspan="2">Lump sum/5/10/15/20 years</td></tr>
<tr><td rowspan="3">Insurance benefits</td><td rowspan="2">Basic</td><td>First-time incidence of 60 terminal illnesses triggers payment of basic SA, with termination of contracts.</td></tr>
<tr><td>Payment of paid-in premiums or cash value, whichever is larger, in the case of death</td></tr>
<tr><td>Optional</td><td>Payment of basic SA in the event of prolonged state of loss of ability of self-care without incidence of critical illnesses, with termination of contracts (mutually exclusive of terminal illness payment)</td></tr>
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Briefing

Q & A

1. Q: How is your "jumpstart" going so far? At the Investor Day of December 2017, management said the target for the jumpstart was to deliver positive growth. Any change to this target?

A: Due to a number of factors such as change of products and rising interest rates, listed life insurers all experienced varying degrees of decline in agency FYP growth in January. Given an even higher base at the beginning of 2017, CPIC faces a bigger challenge and more uncertainty in delivering positive growth for this year's jumpstart. Actually, the first half would be a challenge. But growth is likely to recover in the second half.

Statistics in January indicate that the decline was mainly attributable to the drag from long-term savings. Long-term protection still saw double digit growth, in line with our expectations. The number of performing agents measured by long-term policies increased month-on-month, with retention and quality of the sales force largely stable. Going forward, we'll continue to push for the growth of long-term protection business in a bid to stabilize and improve the VNB margin. The original budget for VBN growth, namely, striving for a growth higher than the average of listed peers, remains unchanged.

To this end, we've recently launched a pure critical illness product (without return of premiums) known as *Xingfu Ankang* to diversify protection product offerings. It caters for needs of different customer segments, and helps with the sales and income of agents, particularly new recruits.

High-quality development has become the defining feature of China's economy. In the long term, given the renewed focus on protection as the central insurance value proposition, the shift from high growth to steady growth seems inevitable. Life insurance has an even longer time horizon. The "jumpstart" is not all there is to the development of the agency channel, and the short-term volatility by no means dampens the sound fundamentals of the industry. In a challenging market environment in 2018, the company will take matters into its own stride, and focus on "enhancing the foundation of development". In particular, we will persist in productivity improvement on the back of increased market share in central urban areas through intensified recruitment selection and differentiated resources-allocation. In the meantime, we will continue to enrich the line-up of protection products to deliver sustainable value growth.

2. Q: What is the impact of automobile insurance deregulation so far? How will things be trending going forward?

A: In June 2017, CIRC issued The Circular on the Adjustment and Management of Tariffs of Commercial Automobile Insurance, marking the beginning of the 2nd round of deregulation. The reform further relaxed the restriction on "discretionary" channel factor and underwriting factor, leading to lower premiums and consequently higher loss ratio. At the same time, CIRC stepped up its regulation of the market by imposing upper limits and conducting on-site audits in a bid to rein in irrational competition on fees and commissions. As a result, the industry's expense ratio declined. In balance, the industry combined ratio was stable.

The upcoming 3rd round of reform will further increase the flexibility of pricing. Control on discounts will be eased, and in certain geographies may be even totally removed. "Comprehensive products" will also be launched, with expanded coverage. As such, we may expect further decrease in premium adequacy and increase in loss ratio. That being said, with tightened regulation, industry combined ratio could be kept around break-even. But the balance is fragile, and in the long term the underwriting profitability of the sector will be under downward pressure. There may be further polarization, with larger players better positioned for competition given their strengths in customers, pricing, service network and economies of scale.

Going forward, the company will continue to enhance risk selection, differentiate resources allocation to improve the acquisition and retention of high-quality customers, accelerate the growth of "proprietary" channels like telemarketing & Internet and cross-sell to increase their share of the auto business, strengthen claims cost control and use new technology to improve customer service and the centralized operational management.

Regulatory Updates

- **CIRC amends rules on insurance fund investment**

On January 26, CIRC hosted a press conference for the release of the amended Regulations on the Management of the Use of Insurance Funds, effective from April 1, 2018.

The amendment added new content, mainly including: serving the needs of the insurance industry shall be the primary target of insurance asset management; explicitly stipulating that insurance fund investment shall be independent and shareholders of insurance companies shall not overstep their remit and meddle with the use of insurance funds; stepping up overseas investment regulation, specifying that such investments shall comply with rules & provisions of CIRC, PBOC and SAFE; insurance AMCs, to issue asset management products, shall register and disclose information on CIRC designated platforms, set up data analytical and risk early-warning systems; intensifying regulation over outsourcing, banning "sub-outsourcing" or the provision of "channel business" by investment managers; specifying options of administrative penalties in cases of breaches and in particular providing for penalty for both the offending company and the responsible person, while enhancing internal accountability; stipulating explicitly that insurance companies shall abide by applicable laws and regulations of the securities sector when engaging in securities investment.

Second, the amendment formalized some of the best practice and policies of the regulator in the past years, such as explicitly allowing investment in private equity funds and establishing specialized insurance asset managers in property, infrastructure and nursing homes for the elderly to increase support for small and micro-businesses and the development of the afore-mentioned priority sectors. The document also allows outsourcing to third-party managers like securities houses, securities AMCs and securities investment fund managers, in addition to proprietary investment by insurance companies and outsourcing to insurance AMCs. It seeks to enhance regulation of equity investment, adopting a differentiated approach specific to ordinary investment, major investment and M & A of listed companies. The amendment also requires the establishment of the Risk Responsible Person and annual audits specifically for internal control of insurance fund investment on the part of insurance companies.

Third, the revised regulation seeks to deepen reform in insurance fund investment, including, for example, improving the proportional limits management, specifying that CIRC may adjust the classification, instruments and proportional caps of insurance assets as they deem necessary; the appointment of heads of asset management departments will no longer require prior approval but filing afterwards; explicitly stipulating that CIOs shall be assumed by senior management responsible for investment.