A Summary of Q & A for 2017 Annual Results Announcement

(April 2018, Shanghai, Hong Kong)

1. Q: What is your view on the regulatory trends in 2018? And their impact on the company?

A: The overhaul of the financial regulatory framework will improve regulatory co-ordination, ensure healthy and stable development of the industry, enhance the effectiveness of oversight, and facilitate the support for economic development and the prevention of major risks.

As for its impact on us, compliance and the prevention of major risks have always been our priority. Our vision is to focus on the core business of insurance and specialize in it, and pursue healthy and steady development, which we believe is aligned with regulatory directions. In terms of the impact of existing rules and regulations, on the property and casualty side, with the deepening of deregulation of commercial auto insurance, retention of high-quality customers will be essential, and insurers will have to compete over customers services instead of fees & commissions. On the life side, given the return to protection, competitions will shift from volume towards value. As for investment, it's important to adhere to value, prudent and long-term investment. The

asset-driven model will be past. Going forward, we will continue to persist in customer orientation, abide by the inherent development patterns of the industry and pursue high-quality growth.

2. **Q: Did your life FYP and NBV growth in Q1 meet your expectations? If not, why? What is your expectation for growth of FYP and protection business in the next 3 quarters?**

A: In Q1, total life premiums saw double-digit growth. Of this, the agency channel remained the key driver, with a growth higher than that of our peers. Thanks to the transformation over the years, we maintained our competitive edge and are confident of the performance of both NBV and GWPs for the whole year. Our target remains unchanged, i.e., delivering a growth higher than the average of listed peers on both indicators.

As for the decline of FYP in Q1, from a different perspective, it might be a blessing in disguise, given the regulator's requirement for the return to protection. As a matter of fact, in Q1, protection business gained momentum while savings fared relatively poorly, pointing to shifting customer needs. Besides, the agent performance ratio measured by long-term protection products also improved considerably. Of course, due to the drag from savings products, the total FYP fell quarter-on-quarter.

We think the performance so far is in line with the trends of the industry and the real needs of customers. For the whole year, we are confident of achieving positive growth, and one that is higher than the average of our listed peers.

3. **Q: How do you balance between NBV and premium growth? What is your expectation of agency channel growth?**

   A: We persist in value-orientation, and give priority to NBV growth while adapting to customers' needs. Specifically for the Jump-start Campaign, we try to balance between value and volume. The NBV margin for the whole year will be stable and may even improve. Apart from products, another important driver of value growth is the quality of our sales force. We will step up training, increase the number of polices per active agents and improve protection for our customers through health insurance and pension.

4. **Q: Why was the applicable tax rate of the property and casualty business so high in the second half of the year? What is your expectation of this year?**

   A: The increase in tax rate was similar to that of the industry. Under Chinese accounting rules, commission rate over 15% will be adjusted for taxation purposes. We believe that with the roll-out of the third round of deregulation of commercial auto business, the

spike of commission levels will ease. At the same time, we will accelerate the development of business lines without commissions or with tax incentives, such as agricultural insurance and personal non-auto business.

5. **Q: Your FYP per agent per month fell last year. What is your guidance for this year and how do you balance productivity and total premium growth? Any plan for agency development?**

A: The productivity measured by total number of agents fell slightly. But that needs to be put in perspectives. In a mature market where agency force growth is stable, it might be a useful and reliable measure. But in a market where the number of agents grows rapidly, say, at double digits, the productivity will be diluted. To provide a clearer picture of changes of our sales force, for 2017 we adopted the productivity based on active agents measured by long-term insurance policies, which grew by 6%, and this could be what investors really want to see. We also focused on improving the number of long-term insurance policies for active agents, which increased by 10.7%. These indicators show that while the sales force expanded rapidly, the productivity among active agents held up relatively well.

As for headcount growth, we have always put quality before quantity, in particular focusing on growth in urban areas. We

estimate a continued headcount growth for 2018, albeit at a lower rate. Our priority remains on the management, training, and coaching of the agents so as to increase their income and in turn, retention.

6. **Q: Your comprehensive yield and total investment yield were lower than those of your peers. Why and what will be done to improve them?**

   A: The comprehensive investment yield for 2017 was 4.8%. A comparison with our peers indicated that, first, in terms of asset allocation, we focused on long-duration bonds based on asset-liability management, with a relatively large share of 5 years and above; second, in terms of financial assets classification, our share of AFS was also higher than that of our peers, meaning a bigger impact on comprehensive yield when interest rates went up. Excluding these factors, the comprehensive investment yield was above the peer average. Moreover, since the vast majority of our investments will be held to maturity, the impact was booked only for the accounting purposes, without any direct impact on the actual investment income.

7. **Q: The VIF and NBV seem to show opposite sensitivity to surrender ratios. Why does VIF go up but NBV down when the surrender ratio goes up?**

A: The main reasons are business mix and policy duration. Indeed, some portion of our business would have higher value when surrender ratio goes up. But over the years, given the increase in protection business as a share of total sales, the sensitivity has diminished. The current level of sensitivity is low and acceptable.

8. **Q: The loss ratio of your automobile business went up faster than PICC and Ping An, and why? What is your expectation of the impact on products and loss ratio of the 3rd round of deregulation?**

A: The previous two rounds of deregulation for commercial auto business have impacted the premium rates of insurers by varying degrees, depending on their geographical distribution, business and product mix. Over the past 3 years, we pressed ahead with business quality control and business mix adjustment, which has made a big difference.

We expect similar effect from the 3rd round of deregulation, which would feature introduction of comprehensive auto insurance products, and further deregulation of premium rates. We will persist in business quality control and business mix adjustment, and optimize resources allocation via enhanced coupling of commissions, loss ratios and discounts. We are

convinced that these measures will translate into competitive advantages and solid business results.

9. **Q: How will you cope with the challenges of internet health insurance innovations and the health insurance ecosystem?**

A: In 2015, CIRC promulgated regulations on internet health insurance. In compliance with the new rule, CPIC Allianz Health narrowed its geographical scope from nationwide to places where it has branch offices, i.e., Beijing, Shanghai, Guangdong and Sichuan.

The innovation of internet health insurance was to address certain pain spots in reality. For example, internet insurance customers are small in numbers, and products that can meet customers' real needs are limited. Health insurance products are mostly for healthy people, and those in real need are denied access, leading to poor customer experience. The claims process can be cumbersome. Given the limitations of modern medical science, the cure ratio of critical illnesses is low. Another challenge is that data for health insurance is highly scattered. The government is working on setting up an integrated platform of information, and this will be instrumental in improving the effectiveness and protection level of health insurance products. Of course, it will take time to build such a platform.

10. Q: How would CPIC Life and CPIC Allianz cooperate in promoting protection business, for example, improving collaboration in products and customers? Any plan in new health insurance products or agency channel development for this purpose in 2018?

A: Health insurance has been defined as a priority of the entire Group, in response to aspirations for a better life of the Chinese people and driven by increasing collaboration within the Group. As for CPIC Life, our focus is on customers and the distribution of products and services, while CPIC Allianz Health would serve as a platform of operational risk control, product R&D and health management. CPIC Life plans to launch the *Better Life Program*, which leverages CPIC Allianz as a platform for health management services and its own agency channel to access customers in a bid to provide health insurance cover and achieve better health of policy-holders.

We also acquired individual customers via government-sponsored business and corporate clients. And after that we would deliver health insurance products and services via the distribution channels of CPIC Life. Essentially we seek to promote the development of health insurance as a Group-wide priority through the upgrading of current models of CPIC Life. Of

course, we will also use internet to bring ease and convenience to our customers.

11. Q: Any concrete steps to implement Transformation 2.0? Will there be any changes to KPIs?

A: Transformation 2.0 is actually a continuation of and upgrade from the previous initiative dating back to 2012, which is what we call Transformation 1.0. It is a continuation and upgrade because, first, customer needs lie at the heart of the business operation of an insurance company; second, Transformation 1.0 helped to entrench the business philosophy of sustainable value growth and the key insurance value proposition, with tangible improvement in business mix and quality. What we have achieved today, such as an industry-leading NBV margin and NBV growth, the turnaround of property and casualty insurance, and the optimization of asset-liability management, would not have been possible without the transformation in the past 5 years; third, Transformation 1.0 provided useful experience for Transformation 2.0. For example, while formulating overarching objectives, we also came up with a number of projects, each with definitions of project managers, time-lines, deliverables and mechanisms of tracking and evaluation. In short, Transformation 2.0 will build on the business philosophy, business results, and methodologies of

Transformation 1.0.

Its over-arching objectives are to be the best in customer experience, business quality and risk control capabilities, contributing to healthy and steady development of the industry. To be frank, the target is challenging, and we plan to achieve it by 2021. We have planned 14 projects surrounding key areas of talent, digitalization, collaboration, Group centralized control and business portfolio investment. Of these, 8 have been up and running. Since Transformation 2.0 will focus on structural gaps and shortfalls to strengthen our capability to seize emerging development opportunities, some of the projects, such as talent development, collaboration, digitalization and the development of health and pension will require concerted efforts of the Group, its subsidiaries and even branch offices.

We have appointed project managers for all the projects. Project A01 is about talent, headed by me (President HE Qing). We have also established a Steering Committee, with KONG Qingwei as chairman and me (HE Qing) as vice-chairman. Performance evaluation not only targets these projects per se, but also will be integrated into the KPIs of our subsidiaries. We hope through a few years of hard work, under the leadership of the Board and with the joint efforts of the management, Transformation 2.0 will

bear fruit and reward our investors.

12. **Q: In spite of rapid NBV growth in 2017, the second half experienced a dramatic slow-down from the first half. Any plan to improve the stability and sustainability of your business? What is your outlook for both life and property and casualty business going forward? Any new measures?**

A: Sustainability and stability is an important long-term strategy for us. Of course, different companies may have different strategies, which may impact the distribution of business growth across the year. The FYPs from our agency channel recorded new highs last year, at RMB28.5 billion, almost the same as that for the entire year of 2015. NBV growth for the first half of 2016 was also very strong, which began to slow down into the second half according to plan. All this means a big pressure for this year. But it also provides an opportunity to smooth out the seasonality across the year.

Therefore, the FYP and NBV growth this year will be more steady, which is also in line with industry trends in the context of tightened regulation and renewed focus on protection. Internally, we will optimize KPIs, striving for more stability and sustainability. As for NBV margin, given the focus on protection, it will be stable and may even improve slightly. But as the industry

competition intensifies over protection business, there may be some pressure on its margin. Of course, this is an industry-wide phenomenon, not that our strategy has changed.

On the side of property and casualty insurance, efforts in the past years, like business mix improvement, business quality control and development of emerging business lines, have started to pay dividends in 2017. In particular, given different risk profiles of auto and non-auto business, the focus on quality control has started to make a difference the business mix of 2017. Going forward, there will be both challenges and opportunities. We will on the one hand continue with business mix adjustment and quality control, and on the other hand increase the use of new technology and promote innovation, so as to deliver healthy, high-quality and sustainable development.

13. Q: Your non-standard assets as a share of invested assets increased a lot in 2017, and why? How do you think of the impact of new asset management rules on your investment decisions and yields?

A: The increase in the share of non-standard assets over the past 3 years has been an industry phenomenon. Non-standard assets are mostly allocated in alternative assets. For CPIC, the growth of 2017 was the highest in the last 3 years, with the share of

non-standard assets increasing by 5.6 percentage points, the highest among peers. The main reason was fast raising interest rates in the second half of last year. Non-standard assets could offer a liquidity premium compared with standard assets with the same credit-rating. In terms of credit risk, it is also manageable, with the share of AA+ reaching 99.7% and AAA over 91% for those non-standard assets with an external credit-rating.

14. Q: What is your plan in Insurtech, and any progress? What is the input-and-output ratio?

A: Insurtech tops the agenda of the industry today, as advancement in technology is having a profound impact on risk pricing, product distribution, customer interaction, business model and processes and the insurance market at large. Insurtech, or digital strategies, is intended to address issues in operation, which can be summarized as customer experience and operational efficiency. It will become a new growth engine of insurance companies. We kicked off the digital strategy last year, which consists of 5 tasks: first, the digitalization of key customer journeys with end-to-end interaction; second, the digitalization of the entire supply chain, supporting end-to-end interaction and integration of front, mid and back ends; third, building of computing power; fourth, achieving exponential growth of apps; fifth, coping with

risks arising from going digital.

We have delivered some initial results in implementing the digital strategy. The coverage ratio for key customer journeys reached 100%, with over 100 apps for customers, and 16.5 million interactions every day. Of this, about 10% of customers can use self-service on these apps. The digital strategy also saved us 200 million pieces of paper every year, reducing carbon emissions by 3,500 tons. All insurance contracts via our life agents have been signed digitally. Other numbers include: digital training covering 4.42 million program registrations, 100,000 insurance recommendations daily, 11 million policies issued via mobile apps. On top of this is the building of a digital ecosystem, which will be enhanced further to improve our operational efficiency and fuel the growth of various business segments.