Q&A for 2022 Q1 Report

1. Q: In Q1, your net profits fell a lot, why? What is your expectation for the year? Would investment impairment charges impact net profits for FY2022?

A: The fall of net profits in Q1 was mainly due to lower investment income. There was the high base effect from Q1 of 2021, coupled with a steep fall of securities trading gains in February and March as a result of changes to equity market volatility. Investment impairment charges do not yet have a substantial impact on investment income or net profits.

Going forward, given greater domestic and overseas economic uncertainties, and the resurgence of COVID-19 in many cities, net profits for FY22 would be under pressure, since city lockdown would put economic activity on hold and slow down economic growth. We will persist in high-quality development, do our best to overcome the difficulties and ensure stable business development for the whole year.

Earnings of insurance companies, particularly for life insurance companies, can be highly volatile. That's why we started to disclose OPAT in 2019, which is a more useful and clearer measure of the underlying performance of an insurance company, as it strips out the impact of short-term investment movements, changes to actuarial assumptions and material one-off factors. Therefore, it provides an alternative angle to evaluate business performance in addition to accounting profits. In Q1,

the OPAT attributable to shareholders of the parent fared much better than accounting profits.

2. Q: To deepen the life insurance transformation, you launched the Changhang Action Programme in an all-around way earlier this year, in a bid to foster a career agency force towards "3 Directions and 5 Mosts", focusing on core manpower and productivity gains. How are things going? Any improvement in the agency force? When can we expect improvement in KPIs like NBV?

A: On July 1 last year, we initiated the design of Phase I of the Changhang Action Programme, and 3 things were accomplished in the ensuing 6 months: 1. Designed an 18-month "road-map"; 2. Enhanced agent validation to shore up the foundation of the sales force; 3.Conducted advocacy of the reform among staff and agents to forge consensus.

The implementation of the road-map started on Jan. 1 2022, seeking to build a new operational mode of the agency channel centering on professionalism, career-based development and digitalisation. Key initiatives include: 1. Amended the Basic Law, put in place the closed-loop system for high-quality recruitment and high-performing agents. Manager-level agents are more selective in recruitment. Launched the Changhang Partners, an agent recruitment programme. 2. Incorporated NBS into the closed loop of operation, which begins with

service and then moves to sales. “Daily visits, weekly management and monthly planning” helped to substantially improve agent activity ratios and in turn their productivity. 3. Technology for Agents, an on-line platform, helped agents with customer relations management, and the planning of their own daily activity, with steady improvement in user coverage and efficiency. 4. Built the training system in collaboration with world-renowned outfits, and on-line courses are going ahead as planned. 5. Upgraded work-places into a shared platform for agents that is modern, professional and open, supporting multiple functions.

In Q1, we delivered some initial results: 1. Stabilisation and recovery of core manpower, with monthly average core manpower in Q1 rising by 33.7% from the second half of 2021; 2. Average core manpower FYC in Q1 increased by 75% from the second half of 2021, and by double digits year-on-year; 3. 13-month retention ratio for new recruits in March and February rose by 4.6pt and 3.7pt from the previous month; 4. Marked improvement in business quality, with 13-month persistency ratio rising by 5.3pt year-on-year to 89%, and the loss ratio for long-term insurance fell by 5.6pt.

Given industry slow-downs, our transformation initiatives and adjustment of business development plans, we faced pressure in business performance of Q1, with decline of NBV. However, as long as we press ahead, and do the right thing, the momentum of improvement will

gradually build up. The results in Q1 bolstered our confidence, and we expect more results in the second half of the year. It will take 2-3 years for transformation to bear fruits in an all-around way, and continued patience and trust from our investors would be appreciated.

3. **Q: Your outlets and agents are concentrated in tier-3, tier-4 cities or rural townships. On the other hand, insurance demand from the middle class in tier-1 cities is arguably more robust and resilient. How do you address this gap in endowment in your pursuit of transformation?**

A: Lower-tier cities are actually our advantage. International experience shows that per capital GDP between USD8,000-USD35,000 tends to coincide with the fastest growth period of life and health insurance, driven mostly by new customers; while in excess of USD35,000, the market tends to mature, driven largely by existing customers. If this is a useful guide, then tier-1 cities, given their GDP per person, may boast less growth potential than lower-tier cities, where the insurance demand of emerging middle class is yet to be met. Reports of Oliver Wyman indicated that China's life/health protection gap is 1,600tn yuan, and of this, that of CI and medical insurance exceeded 1,000tn yuan. For people in lower-tier cities, CI insurance covers against both loss of income and health care spending in the event of critical illnesses, and that is a very

appealing value proposition. So it's essential that we build on current channels and networks, upgrade them so as to tap the potential of the middle-class market. This is what we seek to achieve through the transformation - enabling our agents to better serve and focus on this market segment. On the other hand, as for tier-1 cities, we are also working on a differentiated approach towards competition for existing customers.

4. **Q: There are concerns on the market that, the Exposure Draft of Administrative Provisions on Sales of Life and Health Insurance may make business even more difficult for traditional life insurers, and that the competition from Internet, particularly Huiminbao and "million-yuan"medical insurance may seriously disrupt demand for traditional critical illness insurance. What is management view on this?**

A: China's life insurance has just passed the period of "early-day penetration", and entered the stage of diverse needs of the middle class. The main challenge now is the mismatch of supply and demand. According to market surveys, the top 3 factors for customers to choose a financial product: 1. Understanding me, i.e, the supply of personalised products that suits my needs; 2. Long-term service; 3. Professionalism. As for life insurance, it means the shift from relation-based selling

towards the building of trust based on professional and long-term service. Actually, our transformation is aligned with the direction of Administrative Provisions on Sales of Life and Health Insurance, demonstrating a firm resolve to do the right thing, namely, pursuing career-based agency channel restructuring, even though this could involve short-term pains.

As for Internet insurance, Huiminbao and short-term medical insurance, many people worry about their adverse impact on traditional insurance. On the contrary, these products would raise consumers' insurance awareness. Surveys show that customers of Huiminbao tend to have a higher insurance or risk awareness, and are more ready to purchase commercial insurance and personalised long-term protection products.

5. **Q: In Q1, FYP from bancassurance of CPIC Life grew by over 1,100%, and what are the key drivers? What were the main products sold, say, single-pay or regular-pay? What about the NBV margin? What is your expectation of its share of total value and premiums for the whole year?**

A: In the new development cycle of the industry, we adhere to high-quality development, and seek to diversify the channel mix. Bancassurance focuses on strategic partners and accelerates the development of a new business model, underpinned by: 1.

Value-oriented bank outlets on an exclusive basis focusing on key partners and provincial capitals or major cities; 2. Value-oriented products, centering on retirement and health care services so as to provide customised comprehensive solutions integrating insurance products and services for the full life-cycle of customers; 3. A high-quality management team that is professional, competent and efficient, based on high-quality recruitment, management and training.

In Q1, the main products via the channel include long-term single-pay endowment such as Xin Hong Li, and long-term regular-pay traditional whole-life products such as Xin Xiang Ban.

In Q4 of 2021, we reinstated bancassurance, and in the beginning focused on expansion of bank outlets via single-pay products, with satisfactory results. In 2021, the NBV margin of the channel was in double digits. Going forward, the channel development will remain value-oriented, and given its focus on growth of NBV in "dollar" amounts, it will gradually increase the share of regular-pay products, and steadily improve the NBV margin and contribution to total NBV.

6. **Q: Your Q1 report indicates fast growth of P/C non-auto business, which accounted for 51% of total P/C premiums. Everyone agrees non-auto business boasts huge potential, but its underwriting profitability is somehow weak. What is your view?**

A: Slow-down of new vehicle sales has been a drag on auto insurance premium growth. Now industry focus is on non-auto business lines, in particular, health, liability, PA and agricultural insurance.

We pay attention to 3 things to balance between top-line growth and bottom line for such business: 1. Enhancing risk management of traditional P/C business. 2. Intensifying management of government-sponsored business, such as health insurance, agricultural insurance and work-place safety liability insurance; when entering into agreements with governments, we must pay close attention to the expected loss ratios, and in the event of adverse deviation, communicate with governments in a timely manner, and if no compensation can be agreed, we will exit the business without hesitation. At the same time, we need to address the issue of premium receivables through setting internal KPIs and accelerating premium payment. 3. Risk control of platform business. Individual liability insurance and PA insurance on Internet platforms have a much higher risk of frauds, which could be around 1% of total claims, and detection of fraudulent cases is vital to underwriting profitability of such Internet business.

7. **Q: The Q1 solvency report of your P/C operation shows increase in claims reserves. Was this due to business mix change or just a precaution?**

A: We make reserves in an objective and cautious manner, seeking to iron out seasonality and big swings of the combined ratio across the year. Therefore, the growth of claims reserve has not much to do with risk exposure or business quality shifts. Compared with some peers, our Q1 combined ratio tends to be higher, mainly as a result of more prudent reserving in anticipation of higher claims arising from natural catastrophes in the second half of the year, especially in Q3. Overall, our reserving principle is to maintain largely stable financial results of the year.

8. **Q: Given your commitment to long-term investment, how do you balance between the long-term investment philosophy and short-term KPIs, especially in the context of market volatility? What is the current asset liability duration gap?**

A: As early as 2013, we put in place asset management mechanisms across economic cycles, starting with Strategic Asset Allocation (SAA), under which we conducted Annual Asset Allocation. In KPIs, the alignment with SAA and actual SAA implementation were both integrated into the performance evaluation matrix for asset managers, both in-house and third-party. Tactical Asset Allocation(TAA) may deviate in a reasonable way from the SAA framework so as to boost short-term investment results. Thus, we can ensure alignment with the long-term

allocation parameters defined under SAA, without excessive deviation. Under current market conditions, this investment philosophy is even more important, as insurance money is long term in nature, and amid short-term market volatility, we should focus even more on long-term results of asset allocation.

Given the constrains of their liabilities, insurance companies must adhere to the core principle of asset-liability matching. Since 2018, our average asset duration has improved a lot, thanks to increased allocation towards long-term government bonds, which means diminishing duration gap between assets and liabilities. As of the end of Q1, 2022, the gap narrowed by 1.3 years versus the end of 2018, with reduced risk in asset-liability mismatch.

9. Q: High-quality assets on the market are in short supply. How do you plan to respond in asset allocation?

A: Based on a long-term view, profiles of liabilities, the need for strong solvency and stable accounting profits, we have established the methodology of SAA in line with our risk appetite, with disciplined TAA processes and an investment outsourcing system compatible with portfolio parameters. At the same time, we strive to build an integrated internal credit-rating system and a prudent investment risk control system so as to generate optimal results in the long term.

In recent years, we persisted in the “dumb-bell shaped” strategy, seizing opportunities to increase allocation in long-term assets such as T-bonds and local government bonds in order to lengthen asset duration, improve asset-liability matching, and stabilise net cash inflows; on the other hand, moderately increasing the share of equity investments and investment properties in SAA to enhance long-term returns.

Besides, based on improved professional capabilities, we have also intensified effort in non-public financing instruments and alternative assets: built a professional alternative investment platform, carried out cooperation with industry leading outfits in alternative investments, and put in place investment teams, mechanisms and systems with our distinctive characteristics. In secondary market equity investment, we favour high-quality assets with low volatility and long-term investment value, focusing on their long-term performance, dividends and growth potential, instead of blindly pursuing “hot spots”of investment.

10. Q: Since IPO, your comprehensive investment yield has been better than the average of your peers. But C-ROSS II added the requirement for “look-through” calculation of minimum capital for market risk and credit risk. Given your focus on non-standard assets and vigourous investment in equity funds, would the new “look-through” requirement impact your solvency?

A: Solvency is a key parameter we consider when conducting investment. We have already incorporated the new C-ROSS rules into our asset allocation models, investment strategies and capital planning framework. Our alternative assets are mainly in two categories: 1. Debt investment schemes, which are in essence fixed income, and thus would not have much impact on solvency even with the adoption of the "look-through" approach; 2. Equity investments, especially equity funds, which may involve complex underlying projects and may impact the solvency, particularly when there are high requirements for asset managers. However, such assets represent a very limited share of total alternative assets, and even less of total investment assets. At the same time, we are in discussions with certain managers, and hope to minimise the adverse impact on solvency through enhanced cooperation in asset "look-through". Going forward, we will integrate "look-through" requirements for equity funds investment to ensure continued allocation in long-term, high-quality assets on the one hand and manageable ramifications for solvency on the other.

11. Q: Your Q1 solvency reports show that the core solvency margin ratio of CPIC Life stood at 147%. Under C-ROSS II, what is management view on a reasonable solvency level? Next quarter estimates put the ratio at 140%, what are the factors for the decline?

What is management target for solvency of CPIC P/C?

A: We have already obtained the approval from CBIRC for a C-ROSS II transitional period. It somehow eased the downward pressure on the core solvency margin ratio of our life subsidiary, which dropped from 218% as at the end of 2021 to 147% as at the end of Q1 this year. The projected decline to 140% in Q2 is mainly due to the impact of profit distribution from CPIC Life to the Group.

We would consider the following factors when determining a reasonable solvency level: 1. Business development needs; 2. With decline of interest rates, we need to increase the exposure to equity investments, which will lead to more volatility in solvency. Accordingly, the solvency position will be under pressure going forward. We will apply for the issuance of perpetual capital bonds as per regulatory guidelines to address the issue.

As per relevant rules, the threshold comprehensive solvency margin ratio is 180% for agricultural insurance. Therefore, our P/C company considers 200% as a warning level, which may trigger enhancement measures such as the issuance of capital bonds or capital injection. Currently, the ratio is way above the warning level.

12. **Q: The government recently enacted Provisions on the Establishment of Individual Pension System, which mentioned tax**

incentives for the 3rd pillar of retirement provision. Insurance is but one option on the table. How much do you think traditional insurance companies would benefit from this? Are you prepared in terms of products and channels, and in the long term, what is your strategic deployment along this line?

A: The establishment of individual pension system is a meaningful boost for China's economic development, and is of strategic significance for insurance companies, who stand to gain in competitiveness and market share. At the same time, China's economic transitioning needs long-term funding, and insurance money is an important source. The growth of individual pension assets would be complementary with other types of funds.

International experience shows that a society needs a diversified pension fund management system, and insurance companies play a very important part in it. Currently in China, the population of those aged above 60 reached 264mn, which calls for a systematic approach to old-age provision. Last year, CPIC released The White Paper on Retirement Planning and Risk Management of Chinese Residents, which highlighted 5 priorities in the societal retirement system: 1. Financial provision; 2. Quality retirement communities; 3. Health care; 4. Spiritual well-being; 5. Suitable mode of service provision spanning the "Digital Divide". In the mean time, insurance firms are well-positioned to

contribute to the 3rd pillar of the pension system as long-term institutional investors.

The building of the 3rd pillar presents a major strategic opportunity to us, and we are confident of being able to seize it, given our integrated insurance products and services in rehab and medical care. The new policy grants an annual limit of 12,000 yuan in tax incentives. For customers hoping to have a high-quality, productive retirement life, the demand is much more than that. Therefore, the growth potential is huge.

13. Q: Has the resurgence of the pandemic recently impacted your life and P/C insurance business development? How do you cope with it?

A: In life insurance, the lockdown in certain parts of China made it difficult for agents to visit customers, leading to pressure on business in certain regions. CPIC Life took a host of steps to drive business growth and protect customer interests: 1. In terms of business development, we enhanced the building of on-line platforms to provide agents with more diversified channels of product distribution and training, and to help improve their professional capability and customer relations management; 2. In customer service, we expanded the coverage of nearly 70 insurance products which now included COVID-19, launched a

7*24 claims hotline, provided 15-day unlimited on-line consulting free of charge under the CPIC Family Doctor programme in many cities, and launched the “Food on the Table” programme in Shanghai, helping to ease the short supply of food during city lockdown. Such efforts would raise public awareness of insurance, and have long-lasting, positive impact on our business development.

On the side of P/C insurance, given the resurgence of the pandemic, premium growth in certain regions has slowed down, and at the same time, the deterioration of credit risk, rising capital market volatility would aggravate risks in our business operation. We tackled this with the following measures: 1. Fully leveraged on-line tools to ensure consistency in customer service and continuum in our operation; 2. Stringent control of business quality, with dynamic adjustment of business quality management policies in response to changing risk profiles during the pandemic; 3. Innovation of new products based on market conditions and emerging needs for protection in the context of the pandemic resurgence.