

Summary of Q & A of 2022 Interim Results Announcement

(August 2022, Shanghai)

1. Q: China’s insurance market is now undergoing profound transformation. What is management view on the medium- and long-term outlook for the sector? What strategies do you have? How do you plan to foster new growth engines?

A: Indeed, in recent years, China’s insurance market has experienced profound transformation and entered a new stage of development, marked by changing gears in both premium and value growth. The days of double digits or even higher growth are gone, and now steady growth is the norm. Industry is vigorously exploring paths of transformation. There are mainly 3 challenges facing the industry.

First, some of the systemic problems accumulated during the high-growth period began to surface. While massive recruiting and heavy spending on incentives fuelled rapid business growth, they also triggered a series of issues, such as false manpower, a high proportion of “self-insured policies” which compromised business quality, and surrender racketeering which erodes the foundation of customer trust. All these problems need to be resolved prudently.

Second, it takes time to cultivate new growth drivers. The restructuring of life insurance agency force is gaining traction, but improvement in professionalism and career-based development cannot be achieved overnight, as they require steadfast capacity-building in recruitment, training and an enabling culture. In P/C insurance, in the context of auto insurance reform, the profitability of traditional business lines was under pressure. Besides, the launch of specialised terms and clauses for NEV, and innovation in non-auto insurance could be challenges to business quality, since it takes time to understand the risks and accumulate data. Global warming and higher risk of natural catastrophes may severely impact the underwriting profitability of P/C insurers.

Third, external shocks are increasing. With economic slow-down, loosening of monetary policy, decline of long-term interest rates and capital market volatility, we are facing more pressure in reinvestment, which, coupled with rising credit risk, could be a constraint for insurance business. Moreover, new regulatory rules such as Administrative Provisions on Supervision of Insurance Groups and C-ROSS II require better risk management of insurance companies.

That being said, the fundamentals of China's economy remain unchanged. As a matter of fact, the unique value proposition of insurance

will figure more prominently in an environment of increasing uncertainty, such as providing risk protection, supporting economic growth and promoting social stability. For example, the pandemic considerably raised public awareness of health insurance and services; the volatility of equity market makes savings-type insurance products more popular. In the long term, demographic shift and accumulation of people's wealth can effectively underpin insurance demand. National strategies seeking to meet people's need for a better life, such as Healthy China, Green Transitioning and integrated development initiatives of key regions will inject new vitality into China's insurance market. According to reports by authoritative market research outfits, China's protection gap is still huge in medical cost reimbursement, critical illness income compensation, as well as wealth management and retirement products and services, which means there is still big potential in China's insurance penetration and density.

In short, customer demand remains intact; it's only that insurance companies need to improve their supply to match changing customer needs. In the face of a changing environment, CPIC took the initiative and initiated the supply-side reform to drive for a shift towards the customer-centric operational model.

We launched the Changhang Transformation on the life insurance side seeking to restructure the agency force and meet customer needs in health & protection, pension and wealth management. Meanwhile, we accelerated deployment in health care and retirement, extended the insurance value chain, innovated health solutions and rolled out retirement communities, so as to diversify our product and service offerings. Our P/C insurance focuses on systematic capacity-building while seizing opportunities in emerging business like NEV auto insurance, sustainable insurance and agricultural insurance. In asset management, we strive to optimise ALM mechanism, and enhance capabilities in asset allocation across economic cycles, in a bid to better support liabilities.

2. Q: Could management give us an update of your deployment in health care and retirement? What is your competitive edge on this front when compared with banks or other insurance companies? What is your plan for next stage?

A: Overall, we are making good progress in elderly care. In the wake of the opening of facilities in Chengdu and Dali at the end of last year, the community in Hangzhou also opened for business in July, marking the formation of chain-based and nationwide operation. In terms of business trends, the community in Dali seized opportunities of the high season for

tourism, with the occupancy rate trending up. In terms of operation, customer satisfaction rate exceeded 80%, and we are working on the formulation and improvement of operational standards. As for synergy with the core business of insurance, in the first half of 2022, we received a total of around 40,000 visits, and issued more than 2,700 certificates of admission. Next, we will focus on two things: one is operation and service, diversifying offerings and enhancing standards to further improve customer satisfaction; another priority is the building of professional, chain-based operational management capabilities so as to expand into light-asset business.

Our competitive edge in elderly care mainly includes: first, we offer long-term pension insurance with stable yields; second, we have been profoundly involved in all the 3 pillars of the pension system; third, and most importantly, through elderly care, pension insurance and pension-related financial services, we can provide a full chain of solutions covering the entire life-cycle of our customers.

Health care is one of the 3 priorities of the 14th 5-year Development Programme of CPIC Group. We've made continuous effort in the implementation of the health care strategy, and have achieved some

progress in the first half of the year, especially in driving business growth and core capability building.

Our competitive edge in this area is manifest in 3 aspects. One is our focus on insurance. Deployment along health care would enable us to extend the insurance value chain, build ecosystems, and provide integrated solutions of products and services. Second is innovation in mechanisms. We have entered into strategic partnerships with leading care providers, investment entities and internet firms, recruited talent with diverse professional backgrounds such as medical service, internet products, and AI, matching jobs with professionals with required skill sets and expertise. Third is continued improvement in corporate governance. Directors of the Group are all leading experts in their respective area of specialisation, with profound insights into the trends and dynamics of the industry, which guarantees effective guidance for the implementation of the health strategy.

3. Q: The Company kicked off the Changhang Action Programme in January, what in your view has the transformation achieved? What difficulties have you come across in the process and how did you overcome them? What steps will you take next?

A: We completed the designing of the 5-year Changhang Transformation last year, and initiated an 18-month road-map earlier this year, which underscores our commitment to supply-side reform to boost long-term development. So far, the transformation is proceeding in an orderly manner according to plan, with a majority of the planned projects underway. And we've delivered some initial results in line with our expectation. First is the progress in agency force restructuring centering on career-based development, professionalism and digitalisation, driven by the new Basic Law. There was initial improvement in agency force quality, evidenced by growth of core agents, and improvement in productivity, income and activity ratio. Second, we proceeded steadily with channel diversification, with impressive results in value-oriented bancassurance underpinned by banking outlets, products and dedicated teams. Third, we've also seen improvement in metrics on business quality, such as 13-month policy persistency ratio and surrender ratios.

Surely there are difficulties. First is increasing uncertainties of the environment. In the face of pandemic lockdown in parts of China, our sales force moved on-line for continued customer engagement activities, and in June NBV growth began to turn positive amid business recovery. The second difficulty is the time it takes to adapt to a new model, whether it's the shift

from product seminars to one-on-one selling based on needs analysis, or from massive recruiting with heavy churning towards high-quality recruitment and training. During the transition, we need to maintain consistency in strategies, and ensure that we do the right and maybe difficult thing.

Going forward, we'll press ahead with the transformation of the operational mode, enhance agent capabilities and digital platforms, paving the way for high-quality development.

4. Q: Your NBV margin dropped a lot in the first half of the year. Why? What steps will you take to improve the NBV margin? Your bancassurance grew exponentially. What is the planning for this channel?

A: There are mainly two reasons for margin decline. One is change to channel mix, i.e., increased share of bancassurance, given the strategy is to roll out outlets since the beginning of the year, which could be a drag on the overall margin. The second factor is change to business mix. With the pandemic and the removal of implicit guarantee on wealth management products, customers seem to prefer savings-type and short-term pay products. However, product profitability remains largely the same. We focus on meeting customer needs to generate NBV in "dollar" amounts. NBV

margin will go up as we continue with transformation and enhance agent capabilities.

Bancassurance has undergone profound changes. Banks now focus more on meeting customer needs instead of merely selling products, and long-term service and branding would figure more prominent in the equation. With the merger of banking and insurance regulators, banks and insurers can work together based on mutual benefits. Against this backdrop, our bancassurance centers on three key approaches: one is customer segmentation, especially high net-worth customers from private banking; second is strategic partnerships with banks based on shared values and philosophies, and alignment of resources, products, services, and systems; third is the building of dedicated teams underpinned by high quality, high income, high performance and high retention, to help banks sell and serve more effectively.

5. Q: Your monthly average agent number fell a lot in 1H. Is the agency force restructuring in line with your expectation? How do you define core agents? Do you think the growth of core manpower is sustainable?

A: The decline of agent headcount is a manifestation of the supply-side reform of the agency channel, which centers on career-based development

and professionalism. We have firmly enforced validation and eliminated false manpower, false insurance policies and false team structures in compliance with regulatory requirements. False agents will go away sooner or later and sooner is better than later, even though that could mean short-term pains.

The transformation we are pursuing has 3 core elements. First, change of values. We uphold honesty and business integrity, hence zero tolerance for anything false. So we persist in strict agent validation. The second core component is a paradigm shift, away from massive and indiscriminate recruiting to high-quality recruiting, from short-term incentives to normalised recruiting. Only when the business is stable will the business quality be good, and brand name will improve. Third is change of agent behaviours. We'd rather eliminate the false manpower and grant managers a transitional period to build real high-quality teams than keeping the false manpower to stabilise the structure. This new approach has been well received by both staff and the agency force, and our agents have started to work under the new operational mode.

About the definition of core manpower, under the amended Basic Law, resources which used to be heavily skewed towards the Jump-start now became quarterly and annual bonus. The former is based on productivity,

while the latter linked to certain thresholds for productivity in a month. Core manpower is defined as those who meet the minimum to qualify for quarterly bonus. Of course, as we are an insurer with nationwide business, the thresholds for quarterly bonus may vary from branch to branch. Essentially a core agent has to meet the minimum requirement in quarterly bonus which is compatible with local average income and can provide for their family.

We focused on retention and conversion of existing agents in the first half of this year, promoting the work mode of “monthly planning, weekly operation and daily visits”, with encouraging results in core manpower expansion. In the second half of the year, we will build on this and systematically boost high-quality recruitment by managers, focusing on selection, coaching and retention. Success brings success. In such a way we could attract more talent into the agency force.

6. Q: What is management view on the recent recovery of your agency channel FYP and NBV? What target do you have for agent productivity gains under the 18-month road-map?

A: In the first half of the year, except for April and May, which were hard hit by the pandemic, the business on a monthly basis was stable, not the roller-coaster before, largely in line with our expectations. We hope this

could last, because that would be the model we have in mind, i.e., the model of “elite agents”.

Transformation consists of 4 stages. Stage one, productivity coming down, volume stable; stage two, both going down; stage three, volume shrinks, but productivity stabilises and then recovers; stage four, both productivity and volume go up. Last year, both productivity and NBV dropped, and then in 1H this year, productivity began to recover, pointing to initial results of the “re-balancing”. Next is how to further enhance the capabilities of our agents in selling, customer resources management and recruitment & coaching. We expect to reap more benefits in the next 6 months, that is, apart from productivity gains, core manpower can stabilise and grow moderately. We envisage a total of 18 to 36 months before we can see a full-fledged recovery.

Ultimately, we hope that 5 years from now the average income of our core agents could be 3 times social median wage. That means we can really attract high-quality candidates from the market.

7. Q: In the first half of the year, the underwriting profitability of your P/C insurance improved a lot. Apart from business quality control, travel restrictions for pandemic containment also played a part. What is management guidance for top-line growth and the combined ratio? In

particular, do you think the improvement in underwriting profitability is sustainable?

A: As a leading P/C insurer headquartered in Shanghai, which was more impacted by the pandemic, we took a host of measures to address the uncertainties and challenges, and delivered on our targets, with a top-line growth higher than industry average, and a double-digit market share for both auto and non-auto insurance. Besides, we also recorded the best results on certain key financial metrics in the past decade, such as the combined ratio, total profits and cash flows.

In terms of market conditions, we see two trends. One is economic recovery, which is good for business development; the other is increased mobility, which is a challenge for the combined ratio. We would step up differentiated business management, take targeted measures to further cement the foundation of high-quality and sustainable development. In the short term, say, the second half of the year, we would focus on mitigating losses from flooding and typhoons and continue with business quality control.

Specifically for auto insurance, with the implementation of carbon peaking and carbon neutrality strategies, growth of NEV market in rural areas, cancellation of restrictions on second-hand vehicle transactions and

the incentives of vehicle purchase tax, auto market still has some space of growth. We would stay focused on NEV and better understand its trends and dynamics; on the other hand we are committed to stabilising the business from fossil-fuel vehicles and improving the renewal ratios. In 1H, the combined ratio fell by over 2pt, due to both less travelling against the backdrop of the pandemic and enhanced business management. We expect normalisation of the claims frequency with increased travelling. Therefore, we would also improve resources allocation, intensify claims cost management and promote operational centralisation. At the same time, we will study the new model for NEV, and take steps to reduce its loss ratio.

As for non-auto insurance, traditional business has a large share of premiums, with decent underwriting profitability but a small share of incremental growth; emerging business contributes a lot of incremental growth but has relatively high claims costs. Therefore, it is vital that we balance between growth and quality, maintaining the profitability of traditional business and enhancing the profitability of emerging business. For example, for government-sponsored health insurance, the key is to strengthen the operational capability, such as on-line smart review system and risk control tools based on big data to effectively control medical costs. On the other hand, the mix of government-backed business needs

optimising, focusing more on high-quality business lines such as long-term care and insurance for chronic illnesses. We will also enhance professional expertise via team-building, step up management of certain projects so as to enhance their productivity.

8. Q: In the face of secular decline of interest rates and equity market volatility, what is company view on trends of the capital market in the second half of the year, and how do you plan to cope with the reinvestment risk in terms of investment strategies in fixed income and equity? Do you plan to increase allocation in equity assets to enhance the long-term yields?

A: There is no denying that, given long-term decline of interest rates and equity market volatility, we are facing a major challenge of reinvestment risk. China's economy faced the triple pressure of demand contraction, supply disruption and weakened expectation in the first half of the year, and in the second half, on the back of a package of pro-growth policies, the economy will be resilient, and may very likely experience a mild recovery with the help of increased infrastructure spending.

To be more specific, interest rates overall may fluctuate within a relatively narrow band: on the one hand, with mild economic recovery, bond yields are unlikely to go up considerably; on the other hand, the yield

curve is in historical lows, already pricing in market upsides and downsides. In balance, China's monetary policy will remain largely consistent, and extraordinary loosening will not happen. In terms of fixed income asset allocation, first and foremost is duration. We will seize opportunities in long-term T-bonds and local government bonds, increase allocation in these instruments while interest rates are relatively high. Second, we will focus on asset quality, with continued attention to credit instruments with high credit-ratings which can stretch across economic cycles. Third, we will strive to diversify investment strategies, employing multiple methods and tools to enhance portfolio yields.

In equity investments, we've done extensive research and implemented the "dumbbell-shaped" investment strategy, i.e., increasing allocation in long-term T-bonds on the one hand and diversifying the mix and types of equity investments on the other hand. Apart from alternative investments which include, among others, private equity, we will diversify our liquidity strategies on the secondary market. First, we have greatly increased investments in dividend/value stocks. Because of this, the comprehensive investment yield on our equity assets was much better than market average in spite of a weak equity market in 1H. In terms of net investment yield, dividends from equity assets rose by over 50%. An active

dividend/value strategy was the key reason. The second strategy in equity is new energy and ESG. We have increased investments in NEV, PV and wind power, have delivered good results in 1H this year.

In the second half of the year, we will closely follow opportunities in consumption, science & technology, pharmaceuticals and public utilities, and transport as well, in anticipation of economic recovery post the pandemic. Generally speaking, we are quite pro-active in equity investments, especially when the market is weak, which is good timing for us to deploy in certain top firms and industries.

9. Q: Recently, there was a spate of defaults by property developers. What is your total exposure to the real estate sector, including equity, debt, alternative and investment properties. How do you mitigate credit risk?

A: Overall, the real estate sector makes up roughly 5%-6% of our total investment assets, which includes equity, such as stocks and REITS, and fixed income, mainly consisting of bonds, debt investment schemes and financial products, and alternative investments, like real estate funds and investment properties. Generally speaking, our counter-parties mostly are SOEs either under direct supervision of the central government or located in economically prosperous regions with high credit-ratings. Overall, they

boast strong resilience in the face of shocks, with the credit risk under control.

As for credit risk management, we follow a unified set of systems and policies for credit-ratings. To be specific, we lowered the upper limits on risk exposure to the real estate sector, and prudently manage incremental exposure. We also exercise stringent control of counter-parties, and based on industry policies and their status of business operation, adopted mitigation measures for certain property developers such as reducing their credit lines and controlling existing exposures, with the overall risk manageable.

10. Q: Your life OPAT grew by 6% year-on-year, in spite of a 0.8% decline of the residual margin (RM). Could management elaborate on the key drivers of the growth? Are these drivers sustainable in the medium and long term?

A: Group OPAT amounted to 20.1bn yuan in the first half of the year, up 9.9% year-on-year. Group OPAT breaks down into P/C insurance OPAT, which grew by 23.3%, mainly as a result of lower loss ratio in the context of the pandemic spread, and life OPAT, which grew by 6%, mainly due to improved loss ratios in the context of the pandemic, and slightly better surrender

ratios and the drop of tax rate. In conclusion, growth of life OPAT was driven largely by increased positive contribution from operating variance.

11. Q: Your P/C insurance claims reserve grew by 17.6% year-on-year, and there was additional reserving versus last year due to deferred claims payment. What business lines does this mainly involve?

A: Due to the impact of the pandemic in certain regions, there was less travelling in 1H, and the claims frequency of certain business lines dropped, which means the loss ratio was lower than normal levels. As the pandemic eases, claims ratios would gradually catch up. We always abide by the principle of truthfulness and prudence in reserving, and the extra reserves set aside in 1H are appropriate, and are compatible with the risk profiles of the business.

On the other hand, by setting aside more reserve, we further enhanced our financial position. Retrospective reviews of reserve adequacy all indicate that our claims reserve has maintained reasonable and sufficient levels. Then there is reserve for unearned premiums, whose movement is a function of business growth and change to business mix.

12. Q: In the first half of the year, the purchase of your own shares by chairman and president bolstered investor confidence. Does management have plans for more stock purchase? Some of your peers

have launched share buy-back and employee ownership plans (EOP). Do you have similar plans?

A: In the first half of the year, management bought company shares on the secondary market, which has been disclosed in our interim report and on the web-sites of the exchanges. Actually, some senior executives of our major subsidiaries also increased their stake in the company. This demonstrated management confidence in the fundamentals and long-term prospects of the company. The confidence stems from the ability to adapt to a fast-changing environment and a commitment to hard work and delivery.

Since March this year, the pandemic situation has been grave and complicated. A total of 50,000 CPIC employees on 842 work-sites involving 8 head-offices of the Group and subsidiaries, 76 branch offices and 3 entities in Hong Kong were affected. At such trying times, the management of the Group and subsidiaries did not shy away from their responsibilities and demonstrated effective leadership. 13 work-sites in Shanghai and the data center in Chengdu entered enclosed production. Management worked shifts day and night, implemented pandemic control measures and ensured safe and smooth operation of the company. We also persisted in high-quality development, deepened business transformation, accelerated

deployment in health care and retirement, and achieved hard-won results in the first half of the year, which boosted the confidence of the entire company and also laid a solid foundation for fulfillment of annual budgets.

As for plans for management stock purchase, share buy-back and EOP, currently there is no information we can disclose. But we are committed to share value management. We will actively study methods or means of value management based on applicable laws and regulations, and will make information disclosure in compliance with listing rules.