**Summary of Q & A of 2018 Annual Results Announcement**

(March 2019, Shanghai/ Hong Kong)

**1. Q: What is management’s guidance for life insurance in 2019, say, NBV, NBV margin and agency headcount growth?**

A: CPIC Life achieved better-than-expected results in 2018, maintaining a steady upward trend for the past 8 consecutive years. With Transformation 2.0 underway, the business development in 2019 will be on an even more steady footing.

We adhere to value-oriented strategies, seeking to deliver a NBV growth better then listed peers average. In 2018, our NBV margin set a record high, rising 4.3pt and becoming the key driver of NBV growth. In the long term, maintaining a stable margin is important to sustained business development.

Since the agency channel is the key contributor of NBV, we will deepen the focus on the channel and regular pay business, and the agency headcount will be stable. The priority in 2019 is to improve quality of recruitment, enhance training so that the skills of “rookies” can match expectations of customers, and this can also improve retention. We hope the steady development of the channel will lay a sound foundation for sustainable value growth.

**2. Q: Why is the dividend income, which is part of the net investment income, dropped faster than that of your peers?**

A: First, our equity allocation was below the SAA benchmark, given our judgment of the capital market in 2018; second, the fall of the equity market means lower dividend income from equity investments, hence, lower net investment yield for 2018.

**3. Q: What is the rationale behind the management reshuffle of CPIC Group and CPIC Life? Will it have impact on future strategies of your life operation? What is the succession plan?**

A: At this stage of the company’s development, it is entirely normal to have this kind of personnel reshuffle, in order to maintain the momentum of business development.

In future directions, we have drawn up a blueprint, namely, Transformation 2.0, covering five key areas of talent, digitalization, synergy, governance and new business investment. Ms. PAN Yanhong has many years of experience in finance, and is familiar with the agency channel. So she can balance between liabilities and assets, and facts will tell if she can live up to expectations.

**4. Q: In 2018, the effective tax rate of both your life and property and casualty operations saw a steep rise, at 30% and 46% respectively. Why? What is the outlook for 2019?**

A: Both CPIC P/C and CPIC Life saw increased effective tax rates. For life, one reason is change of business mix. The development of agency channel means higher commissions. Another reason is lower proportion of tax-exempt investment income.

As for property and casualty insurance, market competitions were intense. Higher commission, when adjusted for tax, led to higher effective tax rate. Another factor is lower proportion of tax-exempt investment income.

Increased tax rate has drawn our close attention. We will make necessary tax arrangements to the extent that it is allowed under relevant laws and regulations, including seizing opportunities of the capital market in 2019, so that we could keep the tax burden at a reasonable level.

**5. Q: Recently CBIRC requested a verification of the number of life insurance agents by insurers. How will this impact your agency channel business in 2019?**

A: The agency channel is the dominant distribution channel in China’s life insurance market, and still has its advantages today. But it is also a very complicated system. The regulator recently issued some new rules, including exposure drafts, aiming to improve the quality of agents. CPIC has been involved in the consultation.

Going forward, we may see slow-down of headcount growth, or even decline, while agency quality will improve, which would lead to better attendance and productivity. The regulator attaches great importance to the protection of consumer rights, and so the new rules seek to place more responsibilities on insurance companies, with increased accountability. This will help with management of such a large number of agents, and customers will benefit from better service.

In short, with the improvement of the regulatory system, as well as increased focus on training and management of agents by insurance companies, the agency channel will really become the key contributor of value. The new policies are positive for the life insurance industry.

**6. Q: Since the beginning of the year, regulation of auto insurance has been greatly tightened. How will this impact the growth and profitability of the business?**

A: In the past year, with the deepening of commercial auto insurance deregulation, tighter control of caps on commission, and intensified regulation after the merger of the banking and insurance regulators, the market conditions have undergone profound changes. In particular, the irrational competition on commission has been reined in, which is positive for both the industry and CPIC.

Recently, the regulator meted out penalties to players which violated the rules. CPIC adheres to compliance, and has also reaped rewards from this. We believe that with tightened regulation, the competition over commission will ease, helping with more healthy development of the auto business.

**7. Q: Life premiums slowed down in the first two months of the year, and why? What do you expect to achieve through Transformation 2.0?**

A: The first 2 months saw some decline in new premiums from the agency channel, similar to industry trends. That was because we pro-actively controlled the pace of business growth. First, the jump-start drive in the long term is not sustainable. We now focus on re-balancing the growth across the year, which helps to improve resources allocation and agency retention; second, we seek to better understand customer’s needs, and match products with them. We will continue to implement this strategy going forward.

Transformation 2.0 is based on customer’s needs, with the objectives of being the best in customer experience, business quality and risk control capabilities. Part of this effort aims to shift the mode of the agency channel towards high quality development, particularly given the 20.5% average compound NBV growth and 21.4% agency new premium growth in the past 8 years.

First, we will step up segmentation of geography, customers and agents; second, we will balance between long-term savings and protection, and combine products with services such as health, elderly care and enhance our services branding. Essentially we will focus even more on the quality of the sales force and business to drive steady development of business.

**8. Q: Half of your investment assets were allocated 5 years ago at a time of relatively high interest rates. Do you feel the reinvestment pressure as these assets mature gradually? You have maintained a high percentage of fixed income assets, and given the rally of equity market, will you consider changing allocation?**

A: CPIC is a long-term institutional investor, and therefore focuses more on strategic asset allocation (SAA) across economic cycles, not on short-term market volatility. That means a longer asset duration is our core strategy. Our duration compares favourably with that of our listed peers. Given the downward pressure on interest rates, we will continue to lengthen duration and increase investment in long-term treasury bonds. Under the newly formulated SAA, high credit-rating fixed income products and unlisted equity investment will also be a priority.

As for listed equity, we will follow the framework of SAA, regardless of short-term changes in a year or a quarter. In a long-term time horizon, this type of investment will generate stable returns. Basically we invest in the economic development of China and Asia-pacific. TAA, or short-term strategies will not be the mainstream.

**9. Q: There was breakthroughs in new business areas like health management and elderly care. Any plan in the future? Your differentiators?**

A: As part of Transformation 2.0, we have increased investment in health-related and elderly care sectors. Going forward, we will continue with such efforts, including insurance technology, health service, elderly care service, in order to enhance the synergy.

At the same time, serving the real economy and meeting people’s needs for a better life is also a key part of our value proposition. We have obtained approval to conduct agricultural insurance in Heilongjiang and Fujian provinces, becoming the 2nd insurance company with presence in all administrative regions in China. This, coupled with growing insurance demand of Chinese farmers and the opportunities arising from China’s Rural Areas Invigoration Initiative, will accelerate the growth of non-auto business.

With the deepening of transformation, we will share with you our latest progress and developments.

**10. Q: Why did your loss ratio drop by 3.7pt? What is your priority in business development going forward?**

A: There were mainly 3 drivers of top-line growth recovery and combined ratio improvement.

First is focusing on emerging businesses with good growth potential and decent combined ratios. In particular, agricultural insurance, which, after years of continuous investment has delivered an impressive result in 2018, with market share ranking 3rd. Another area is personal lines business with high quality and risk diversification effect, such as personal loans guarantee insurance, travel PA and homeowners’ insurance. Now personal lines account for over 10% of total non-auto premiums. The other growth driver is liability insurance. In supporting national strategies, such as the Belt and Road Initiative, Rural Areas Invigoration Initiative and advanced manufacturing industry, it surpassed commercial lines property & fire and became the largest non-auto business line in 2018.

Second, we increased the use of IT in business quality control. *Taihaobao* has been installed on lorries to monitor driving behaviours and give early warning. We rolled out management tools like policy year combined ratio, the coupling of loss ratio and discounts & commission, and actuarial modelling for auto and non-auto insurance, enhancing our capabilities in business quality management. In 2018, we delivered underwriting profitability for auto, non-auto and agricultural insurance. Of this, auto insurance saw continued improvement of combined ratio by 0.4pt amid intense market competitions. Non-auto business (excluding agricultural) was further enhanced on top of underwriting profitability in 2017. Agricultural insurance increased its market share, maintained a steady business quality and contributed more to total profits.

Third is continued quality improvement on the back of upgrading of centralized management system. We have made big strides in the level of centralization through digital empowerment. For example, the digital system for agricultural insurance was launched in 2015, and has been upgraded once every year. And this year, we will see the launch of version 5.0, which covers the entire management process, driving up efficiency and enhancing customer experience. It also helps with market development, winning recognition of both governments and customers. Besides, there is *Taihaopei*, an on-line auto insurance service platform. After several years of trial and improvement, it has delivered substantial fruit in 2018, with industry leading claims turnaround. This, in turn, helped us win top ranking in regulatory evaluation. We also have a program which was on display at the 1st World AI Conference called “Screener”, which uses AI for fraud detection.

The improvement in loss ratios and operational efficiency is the result of work on many fronts, and we believe that with the deepening of Transformation 2.0, we can make more progress.

**11. Q: What is the concrete application of technology in your business, say, life and property and casualty insurance? What difference has it made? What is plan next step?**

A: IT can directly support Transformation 2.0. Given technological advancement, our IT framework will see big changes in the following ways.

First, the development of core IT systems will be more closely combined with front-line business, so that business needs can be met faster.

Second, we will increase the data-driven approach so that data can play a more important role in business operation. Now our daily data turnover is over 100T, with total amount over 10P, and this will grow considerably in 2019, helping with operational efficiency and business development.

Third, CPIC Cloud is now in use, greatly enhancing management capability and efficiency. The cloud will play an even more important part in improving productivity.

**12. Q: How is the FYP of life insurance protection business trending so far? Any guidance for 2019?**

A: We will pursue balanced development of both long-term savings and long-term protection business. In 2018, the share of protection increased a lot, almost by 50%. Customer’s needs may vary from region to region, meaning different split between savings and protection. Overall, given a balanced product strategy, we do not deliberately pursue a higher share of long-term protection business.

**13. Q: The average number of long-term policies per agent fell slightly in 2018, while FYC increased. How so?**

A: In 2018, the number of policies per agent fell slightly, while FYC per agent increased, mainly as a result of increased share of long-term protection business, which offers higher commission rates but lower “ticket size”. Overall, in 2019 we will focus even more on changes of customer needs. Insurance consumers are mainly concentrated between 35 and 45 years, with needs for both savings and protection. So in training of agents and in product offerings, we will seek to meet their diverse needs.

**14. Q: Any KPIs to track the progress of Transformation 2.0? You have started 13 projects, and what do you expect to achieve in 2019?**

A: 2018 is a year when we prepared and geared up for Transformation 2.0, and in 2019 the theme is to overcome difficulties and deliver breakthroughs in certain areas. As chairman mentioned, in 2018, we mapped out 15 projects centering on core businesses, organizational health and new business investment, of which, 13 were started. What is more important is we put in place mechanisms for the promotion of these projects, defining project managers and team members, setting out both qualitative and numerical targets, with follow-up review on a quarterly and monthly basis.

For example, every month there is a review of the progress of each project, and every quarter there is an evaluation using different labels as an indication of progress. At year-end, there is a comprehensive performance evaluation.

Transformation is a comprehensive project, and cannot be achieved overnight. It is essential that we balance long-term objectives and short-term business results. All projects are important, and if we must prioritize, then for core businesses, the project of new growth mode for individual business of life insurance is a top priority. This includes high quality recruitment, improvement of productivity and how to increase our presence in major cities.

In auto insurance, competitions will shift from those over commission to those over service, and renewals will be more important, for which we also set KPIs.

In organizational health, the board floated 10 areas where we seek to achieve breakthroughs. First and foremost is to put in place a more market-based incentive system, and to better motivate our employees. Another thing is integrated risk management, particularly enhancing capabilities of grass-root branch offices.

In new business investment, technology is surely a priority. At the same time, we also focus on health and retirement-related areas. We saw some initial success in 2018, and the momentum will continue into 2019. Of course, we will stay focused on the core business of insurance, and these investments are only meant to enhance synergy and boost the central insurance value proposition, therefore maximizing the value of the Group.

The roll-out of these 13 projects will gradually deliver results, and we are happy to keep you updated in the future.

**15. Q: In 2018, your NBV sensitivity to interest rates movement increased, while EV dropped. Why? Will you target a business mix which will continue to drive down the sensitivity?**

A: NBV sensitivity increased due to a higher share of traditional insurance. EV sensitivity is more complicated. We have been prudent in the cost of liabilities, and over time, its sensitivity decreased. That being said, with the deepening of interest rate liberalization, we do feel some pressure. But basically we have a good balance between investment yield and cost of liabilities.

**16. Q: Your peers are stepping up sales of long-term protection business, say, critical illness products. What is your outlook for its NBV margin? Your blended margin improved a lot in 2018. How much is attributable to product margin improvement and how much to business mix changes?**

A: The life insurance market is transitioning towards value-orientation, which is underpinned by changes to business mix and channel composition. Given our strategy to balance with savings and protection, the current blended NBV margin, at 43.7% is already a high level, and cannot go up indefinitely. In the past years, our NBV margin improved continuously, contributing to a leading NBV growth among listed peers. In 2018, we ranked second among listed peers. In earlier years, the margin was only around 13%, because of low-margin bank channel. Then with improvement of channel mix, the margin went up considerably. In recent years, the improvement mainly stemmed from business mix shift, namely, increased share of long-term protection business. Going forward, our target is to maintain a largely stable margin, as we need to balance between the interests of shareholders, customers and the sales force.

**17. Q: You disclosed an operational variance of -172mn. Could you explain? Impact from changes to methods and adjustment to assumptions amounted to 1.085bn, and please elaborate. Will this impact future EV and NBV?**

A: The negative variance was mainly caused by rising tax cost. In 2018, the tax burden increased. As for morbidity, we adjusted assumptions in 2017 based on latest industry morbidity table and our actual experience, taking into consideration the trend of long-term deterioration.

The changes to methodology and assumptions refer to the adjustment of the lapse ratio assumption for the negative spread book in the middle of 2018, which is a one-off factor, and does not impact NBV.