Newsletter for Investors (April 25, 2016)

No.4 in Total (2016)

CPIC (SH601601, HK02601)

Stock Data (ending March. 31, 2016)

Total equity base(in million)	9,062
A-share	6,287
H-share	2,775
Total Cap (in RMB million)	206,564
A-share	147,807
H-share (in HK dollar million)	69,791
3months highest/lowest (inRMB)	
A-share	27.97/22.48
H-share (in HK dollar)	30.05/24.15

Investor Relation Calendar

May 9 to11, 2016
CLSA China Forum 2016
Chengdu

May 16 to 17,2016
HSBC China Conference 2016
Shenzhen

May 24 to 26,2016
Morgan Stanley Second Annual China Summit
Beijing

June 13 to 15,2016
J.P. Morgan 12th Annual Global China Summit
Beijing

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Disclaimer

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Premium Income (Unit: in RMB million)

	Jan. to March.	Changes	March.	Changes
Premium Income				
-P&C	25,805	6.0%	8,924	7.1%
-Life	52,350	38.1%	16,010	29.9%

Briefing

CPIC Holds 2015 Results Announcement

On March 29, CPIC held its 2015 results presentation followed by an analyst briefing and a press conference in Shanghai and Hong Kong simultaneously. Over 140 analysts and investors from A share and H share markets, as well as journalists from 60 media attended the event. Below is a summary of the key questions from analysts & investors.

1. What's the impact of automobile insurance deregulation on your business model and combined ratio?

The reform helps with better matching between risks and premiums. The introduction of discretionary modifiers and innovative products can be a challenge to the risk selection, pricing, resources allocation and customer operation of insurance companies. But on the other hand, there will be more opportunities of differentiation. In view of the pilot program, so far CPIC showed similar patterns as the rest of the country. Premium per vehicle dropped while the combined ratio improved. In the pilot regions, we saw improved business mix as a result of elimination of high loss ratio business, with the combined ratio for automobile insurance down by 4 percentage points (mainly because of better claims ratio). On the other hand, due to decrease in premium per vehicle, the premium growth slowed down.

Going forward, we will continue to focus on target customer segments, diversify means of marketing and enhance our capabilities in the acquisition and retention of high quality customers. We will also optimise back-end resources allocation and step up claims management to secure the improvement in the underwriting profitability of automobile insurance. First, in quality control, we will leverage our expertise in pricing to further improve business quality. Second, in resources allocation, we will continue to focus on core channels and priority customer segments and geographies. Third, in claims management, efforts will be intensified to counter frauds to reduce claims losses. Fourth, in business development, the focus will be on new growth drivers, coupled with more use of new technologies. In particular, we strive to build an internet-based ecosystem for automobiles to enhance our capabilities in acquiring new customers and drive sustainable and healthy growth of the motor business.

2.What is the cost of your liabilities? What's your view on the risk of negative spread?

We are committed to providing long-term savings and risk protection products. Participating and traditional combined account for over 70% of our premiums. Overall, the cost of liabilities has been kept at a reasonable level. We are also aware of the risk of low interest rate environment. Therefore, as early as 2014, we began the reform of our asset entrustment model, whereby allocation of big asset classes was handed back to the life company. As for product strategies, we have been cautious about offering higher guaranteed rates. We only sold such products short-term and stay focused on long-term savings and protection business. In business management, we strive to improve the ratio of input and output,via, in particular, the use of new technologies. In asset allocation, we took proactive steps and enhanced studies of non-standard, fixed income and quasi-fixed income assets. As for equities, we will continue to diversify the portfolio strategies. We are also exploring overseas investment including real estate. Basically we are keenly aware of the challenges brought about by the low interest rate, and have taken vigorous steps to tackle the risks.

3.What kind of products did you sell in H2 of 2015? Did they have lower margin?

In the context of rate liberalization, we launched some new products in the second half of 2015, which led to lower margin. Our goal is to maintain an NBV growth higher than the average of listed peers, and we are committed to risk protection and long-term savings products which have relatively high margin. That being said, for the short term, we might introduce some flexibility in products to, say, drive volume in order to fulfill the goal of NBV growth. Overall, the products we sell have decent margin, and we are committed to delivering another year of higher-than-peers NBV growth.

4.Some of your peers are diversifying, aiming to become a financial conglomerate. Do you have similar ambitions?

When we prepared for IPO, the Board reviewed and passed CPIC's development strategy, namely, focusing on insurance and pursuing sustainable value growth. We'll adhere to it in the future to generate even better returns for our shareholders.

With the guidance of the strategy, we've seen encouraging progress in the following areas. First, as a result of our transformation initiatives, internet mobile technology has been incorporated into our businesses such as marketing for life products and claims management for property and casualty. We have rolled our a number of follow-up projects to further increase the use of new technologies including big data. Second, we have stepped up the diversification of insurance-based business portfolio such as health, pension and agricultural insurance, which are also high on government's agenda. Third, we've been seeking to build a business model underpinned by both insurance and investment, and in particular, third-party asset management business. Last year, our third-party business grew by over 50%, which will help us drive sustainable value growth of the company.

5. Your annual report discloses actuarial assumption changes, which increased your reserves by 4.844 billion yuan. The main impact came from discount rate for reserves. Do you expect large impact from this in 2016 and 2017?

In 2015, except for the discount rate, expense rate and lapse ratio, other assumptions were largely the same as those at the end of 2014. In 2016, given fast decrease in the interest rate in 2015, there will be larger impact on reserves, and the trend may continue into 2017, reducing net profits.

6.In the context of lower interest rate, will you adjust the assumption of invest return in the calculation of NBV and EV? If yes, will the impact be large?

The assumption of long-term investment return is based on our SAA and our judgment on China's mid and long-term economic trends. We also consider current capital market situation, expected returns on asset classes based on current and future asset allocation. Another important assumption is discount rate, which is based on risk-free interest rate, while considering investors' expected rate of return, taxation and the risk surrounding future profit realisation. The setting of these assumptions is predicated on economic trends, our own situation as well as market conditions. We review these assumptions regularly and adjust them prudently.

7.Your growth seemed to pick up in the beginning of this year. Does it mean you are now more comfortable with your combined ratio and are ready to boost top-line growth?

Though we delivered a combined ratio below 100% in 2015, underwriting profitability is far from being secured. In 2016, we'll remain focused on consolidating the foundation for profitability and delivering steady growth. First, in the context of deregulation for commercial automobile insurance, we strive for sustained growth in automobile business leveraging our strengths in pricing, resource-allocation and customer operation. Second, in automobile business, we target double digit growth for the 3 core channels, namely, telemarketing & internet, cross-sell and car dealerships. In non-automobile insurance, apart from business mix improvement for traditional lines, we will accelerate development of emerging lines on the back of preparations in 2015, such as government-sponsored casualty insurance, health and internet insurance.Third, we will continue to step up the development of agricultural insurance, which we believe has big potential. We made a lot of preparations last year in product innovations, new technologies and collaboration with Anxin Agricultural Insurance, which pave the way for faster growth of the business in 2016.

8. Defaults are rising, and you allocated a lot towards non-standard last year. How do you control risks?

Insurers are facing formidable challenges in asset management given the slow-down of China's economy. Besides, we have little exposure to overseas investment, and there is low interest rates and rising credit risk. Our equity investments last year were successful. In fixed income, we focused on non-standard and financial products, with satisfactory results. In 2016, we'll continue to enhance our investment capabilities to deliver a good return while controlling risks. In asset duration, given concerns over the rate curve getting steep, we'll shorten the duration moderately. In risk management, in response to CIRC requirement, we have established an independent department of credit-rating, with 2 teams for internal credit-rating and credit analysis respectively. The internal credit-rating is carried out once every half year. On he back of credit analysis, we made fast progress in bond trading, with a return 2 percentage points higher than that on bonds for allocation.

9.Could you give us the share of each of the 3 core channels?How are they different from non-core channels in combined ratios? What are the non-core channels?

In 2015, we focused on the 3 core channels and achieved improvement in the quality of automobile insurance, with the combined ratio falling by 4 percentage points. The 3 core channels are telemarketing & internet, dealerships and cross-sell, all of which saw a combined ratio below 100%. The lowest was 95.5%. On the other hand, the combined ratios of the other channels, i.e individual agents, employees and agency all exceeded 100%. Hence the focus on the 3 core channels. In 2015, their growth ranged from 11.9% to 28.8%, helping us deliver underwriting profitability. In 2016, we'll continue to deepen our channel strategy to further increase the share of the core channels, and in turn, the share of high-quality business so as to drive sustainable value growth

Regulatory Updates

● **CIRC regulates mid and short duration products**

In recent years, with fast rising demand for wealth management, insurance products with mid and short term durations have been increasingly popular. These products typically offer stable yields, with transparency and low risk of mis-selling. However, due to different levels of management, certain insurance companies face increasing risks of asset liability mismatch, as well as liquidity issues. Against this background, the CIRC recently issued The Circular on Regulating the Mid and Short Duration Products, which took effect on March 21st.

The amendments are in the following areas. First, the Circular defines mid and short term products as those with an actual duration of less than 5 years, compared to the definition of high cash value products which are only 3 years. The intention is to encourage insurers to develop more long-term business. Second, the premium income from such products are capped at 2 times the higher of invested capital and net assets, in order to mitigate solvency risk. Third, differentiated approach towards the regulation of different durations. Insurers are required to immediately stop selling those less than a year, while reducing the volume of those from 1-3 years stretching over the next 3 years to reach 90%, 70% and 50% of the upper limit respectively. Fourth, the document stipulates stringent regulatory measures for offenders, like imposing a moratorium on new business and capital raising requirement to make sure that the volume from mid and short duration products is below the limit.

The new document is believed to be conducive to improving the business mix of insurance companies, and increasing the proportion of risk protection products.