

**CPIC ( SH601601, HK02601 )**
**Stock Data (ending May 31, 2017)**

Total equity base (in million)	9,062
A-share	6,287
H-share	2,775
Total Cap ( in RMB million )	267,070
A-share	190,811
H-share ( in HKD million )	86,580
6-mth highest/lowest	
A-share (in RMB)	30.72/25.66
H-share (in HKD)	31.20/26.60

**REMINDER**

**We will host an Investor Day on Drivers of Sustainable Value Growth of Life Insurance in Yinchuan, Ningxia on June 26, 2017.**

**You are welcome to join us.**

**Investor Relations Calendar**

June 20, 2017  
 Huatai Securities Interim Strategy Conference  
 Hangzhou

June 26, 2017  
 CPIC 2016 Investor Day  
 Yinchuan

June 27, 2017  
 Merrill Lynch Asia-pacific Summit  
 Singapore

**CONTENTS**
**• Company Updates**

Election of a new board (Page 2)

**• Topical Study**

Impact of IFRS 9 on Chinese insurers (Page 2)

**• Regulatory Updates**

CIRC launches further deregulation for automobile insurance (Page 3)

CIRC streamlines procedures for investment in major infrastructure projects by debt investment schemes (Page 4)

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**Premium Income (Unit: in RMB million)**

	Jan. to May	Changes	May	Changes
P&C	43,141	4.00%	8,564	14.02%
Life	93,746	36.53%	11,088	16.95%

## Company Updates

### ● Election of a new board (20170613)

On June 9<sup>th</sup>, CPIC's 2016 AGM elected the 8<sup>th</sup> Board of Directors and the shareholder supervisors of the 8<sup>th</sup> Board of Supervisors. The meeting also reviewed and passed resolutions such as The 2016 Board of Directors Report, The 2016 Board of Supervisors Report, The 2016 Financial Statements Report, The 2016 Profit Distribution Plan, The Development Program of 2017-2019 and The Amendment of Articles of Association. The AGM was presided over by vice-chairman WANG Jian. Present at the meeting were some of the board directors, supervisors and senior management including the Board Secretary.

On the same day, the 8<sup>th</sup> Board of Directors held its 1<sup>st</sup> session, and elected Mr. KONG Qingwei as chairman of the board, Mr. WANG Jian as vice-chairman of the board, Mr. HUO Lianhong as president of CPIC Group. At its 1<sup>st</sup> session, the 8<sup>th</sup> Board of Supervisors elected Mr. ZHOU Zhuping as chairman. Mr.Kong and Mr.Zhou's appointment is subject to approval of CIRC.

## Topical Study

### ● Impact of IFRS 9 on Chinese insurers

IFRS 9 will take effect on January 1, 2018. Eligible insurance companies can postpone its implementation till January 1, 2021. The new accounting standard will have major impact on invested asset mix, strategic asset allocation and financial indicators of Chinese insurers.

**The standard for the classification and accounting of financial instruments will be more objective.** Under IFRS 9, financial instruments will be classified as Amortized Cost (AC), Fair Value through P/L (FVPL) and FVOCI, based on the business model of financial assets and features of cash flow on financial asset contracts, which improves the comparability and consistency across insurers. **Booking of impairment charges for financial assets will be more sufficient and timely**, shifting from the current "incurred loss method" towards "expected loss method", taking into consideration forward-looking macro-economic factors.

Impact on China's insurance sector. **1. May lead to dramatic changes in allocation of invested assets.** As the classification is based on business model and profiles of cash flows, insurers will have much

more difficulty classifying their assets as AC or FVOCI. Moreover, under IFRS 9, disposal of FVOCI cannot be booked on P/L. Thus, the share of FVPL will increase sharply. **2. Bond holdings with mid and short duration may rise.** Given more strict rules for asset classification and impairment charges, insurers may be prompted to increase FVPL mid-and-short-term bonds to better balance between risk and reward and to ensure stability in financial results. **3. Long-term equity investment may be more attractive,** since it could mitigate the impact of capital market volatility on accounting profits. Financial consolidation may also help to increase accounting profit. Insurers with strong capital positions will have incentives to increase the shareholding to qualify for “long-term equity investment”. **4. Classification of alternative investment and insurance asset management products will focus more on the underlying risk-reward balance.** These assets will be assigned into FVPL should they fail to pass tests of business model or cash flow profiles. Even if they qualify for AC or FVOCI, booking of impairment will be more conservative. Therefore, insurers will be more cautious about long-term alternative investments, and need to ensure that these investments are in line with the intention of overall asset allocation in business models and cash flow profiles. **5. Much more volatility in accounting profit.** Since AC and FVOCI financial assets are required to book impairment on the date on purchase under the new accounting standard, profit for the reporting period will fall. Given increased share of FVPL assets, there will also be more volatility in profits. **6. The calculation of solvency margin will be impacted.** Under IFRS 9, given more stringent rules for booking of asset impairment, book value of AC asset will go down, leading to lower actual capital. Besides, change to classification will also impact asset book value, and in turn the actual and required capital.

## Regulatory Updates

- **CIRC launches further deregulation for automobile insurance (20170609)**

CIRC has recently decided to grant more pricing power to insurance companies by lowering the floor of the range of discretionary factors in a bid to lower automobile insurance premiums

and ease the burden on consumers via “market-based mechanisms”.

Insurers may file application for the following adjusted factors with the regulator.

1. In the jurisdiction of CIRC Shenzhen Branch, the range of both underwriting factor and channel factor is adjusted to 0.70-1.25.

2. In the jurisdiction of CIRC He’nan Branch, the range of underwriting factor is adjusted to 0.80-1.15, and that of channel factor 0.75-1.15.

3. In the jurisdictions of the branches of Tianjin, Hebei, Fujian, Guangxi, Sichuan, Qinghai, Qingdao and Xia’men, the range of underwriting factor is adjusted to 0.75-1.15, and that of channel factor also 0.75-1.15.

4. In the other jurisdictions, the range of underwriting factor is adjusted to 0.85-1.15, and that of channel factor 0.75-1.15.

Given the adjustment, the lowest possible price will be 0.3825 of base premium, and in certain regions could be as low as 0.3375 (drivers with safe driving habits and good claims record will be given another 20% discount), meaning tangible benefits for consumers. According to preliminary estimates, the latest round of deregulation may increase the claims ratio by 3.6 percentage points.

- **CIRC streamlines procedures for investment in major infrastructure projects by debt investment schemes (20170522)**

Recently, CIRC issued The Circular on Matters Relating to Investment in Major Infrastructure Projects by Debt Investment Schemes. The document offers incentives for insurers to finance infrastructure projects strategic to national or regional economy, provided the risk is under control.

First, there is a waiver of credit-enhancement requirement for projects with an AAA debtor credit-rating and approved by the State Council or its authorized agencies. Such projects are concentrated in water conservancy, energy, transport, high-tech and advanced manufacturing and usually involve big investment. As they will go through stringent procedures of project evaluation by relevant agencies, the investment risk is manageable, and the waiver of credit-enhancement will help to lower financing cost without compromising the risk-reward balance. Second is to establish a “green channel” for registration of schemes serving national strategies such as “Belt and Road”.