

Summary of 2018 Interim Results Presentation Q &A

(August 2018, Shanghai)

1. Q: Your half -year NBV fell by 17.5%, and the drop was more than those of your peers. Why? Guidance for the whole year' s growth?

A: The weaker performance was mainly due to 3 factors. First is change of regulatory policies, which impacted our business mix. Second is higher yields on banks' WMPs. Third is the high base of last year, which saw record NBV growth. But quarter-on-quarter, Q2 improved vastly from Q1, with NBV growth rising from -32.5% for Q1 to 35.2% for Q2. Other business indicators also improved, including FYP growth. For the second half of the year, we expect this recovery to continue.

2. Q: The net profit of your property and casualty business declined by 22.5%, due to increase in reserves and income tax. Could you explain?

A: Pre-tax profits grew by 16.3% to RMB3.42bn, but net profit dropped because of tax adjustment. To be specific, the top-line growth of automobile insurance picked up considerably in H1, with the growth higher than the industry average, meaning higher income tax payments. Besides, "tax-shielding" business as a percentage of total premium is still small, in spite of rapid growth. For example, agricultural insurance and personal loans guarantee insurance are relatively new areas for us, and accounted for only

4.2% and less than 3% respectively, much lower than those of our main competitors. Hence higher applicable income tax rate and the decline of net profit.

3. Q: As at June 30, agent headcount dropped from the end of last year. Why? What about their income? What is your plan for recruitment and product strategy?

A: In H1, headcount growth was basically steady, with monthly average number of agents increasing by 2.8% y-o-y. The drop as at the end of H1 versus the end of last year was mainly due to elimination of non-performing agents. Monthly average number of active agents rose 4.9% y-o-y, and that of high-performing agents fell by 8.4%.

The growth of active agents is essential to retention and productivity. The growth of active agents for 2 and 3 consecutive months in H1 was 8.8% and 55.9% respectively versus last year. The decline of high-performing agents was largely due to change to business mix. Long-term protection business grew rapidly, and yet it has much smaller “ticket size”, leading to a drop in the number of high-performing agents, and lower income as well.

Income also impacts retention. In H1, formal agents' average income was 2 times Chinese residents' average disposable income. Of this, agents serving more than 1 year earned more than the disposable income of

tier-1 cities and those of supervisor-level and above about 2 times tier-1 average disposable income.

In short, though total number of agents fell, active agents maintained growth, with decent income.

4. Q: What is the reason for the underwriting losses of the non-auto business? What about the whole year?

A: Non-auto insurance has always been a priority. In 2017, the business realized double-digit growth and underwriting profit on the back of increased business quality control. This year, we stepped up the development of emerging business lines, with business quality steadily improving and a top-line growth of 33.1%. Of the 7 fast-growing non-auto business lines, 3 experienced much higher growth than the industry and 6 reported underwriting profit. Of course, there was still room for improvement in business quality control, which was the main cause of underwriting losses.

To be specific, first, rapid growth of non-auto business increased the unearned premium reserve, meaning higher expense ratio; second, we increased up-front investment in emerging lines, which drove up the expense ratio; third, we adopted a more prudent approach in claims reserves including increasing IBNR factors to ensure healthy and stable business development.

In H2, we will continue to focus on business quality and the development of new business areas. Assuming normal load of natural catastrophes, underwriting profitability of non-auto business can be expected.

5. Q: The margin of traditional and participating business diverged, i.e, higher margin on the former and lower on the latter. Why?

A: The share of long-term protection business rose from 42% to 50%, and traditional business is mostly protection business, hence higher margin. Participating business, on the other hand, consists largely of savings products. The decline of some of the long payment period savings business led to a slight decrease in margin.

6. Q: Your investment in the elderly care sector gained momentum in H1, and of course in this area Taikang seems to be a big name. What is your strategy for elder care business?

A: The new board of directors is even more committed to the development of the elderly care business. Recently we formulated The Development Program of Elderly Care Business, setting out the direction, objectives, road map and key initiatives in the next 3-5 years. The “CPIC Home” project was also proceeding smoothly, with significant progress in the Chengdu International Retirement Community. We are also in the

process of forming partnerships with overseas retirement facility operation firms. The launch of the “CPIC Home” project will greatly improve our capability in serving target customer segments, and lend much support to CPIC Life’s “One Body with Two Wings” strategy.

7. Q: We noticed very high tax rate for your property and casualty business, and have heard that the government may adjust certain policies. What is your outlook for the second half of the year? Do you expect lower tax rate?

A: The regulator is working on this, and as far as I know, there have been rounds of industry exchanges. We also hope that the adjustment may be made as soon as possible.

8. Q: How was the NBV margin trending over the first half of the year? Will it continue to improve in the second half?

A: The margin for Q2 was higher than that for Q1, mainly due to increased sales of protection business. Our blended margin is also at a high level. Our product strategy focuses both on long-term protection and savings, and the margin will depend mainly on their split.

9. Q: There was a drop of agent headcount in H1. What is your plan for recruitment in H2? What about productivity and income improvement?

Any change to your product strategy?

A: We estimate a mostly stable headcount by the end of 2018, with improvement in quality and mix. We will take the following steps to increase agency channel productivity and income.

First, enhancing basic management to drive up average policy numbers per agent. Morning session attendance is a priority. Measures include harmonization of attendance criteria, upgrade of “punching-in” equipment, more strict verification of attendance, increased monitoring of agent activities to ensure 3 visits per day and eventually production of 1 insurance policy per week.

Second, stepping up training. Put in place training system for “rookies” , focusing on the quality of pre-sale and orientation training; conduct training specifically for managers serving less than one year to improve their capability in recruitment and coaching.

Third, optimising the product strategy based on needs of customers across their life cycles. Persist in balanced development of long-term savings and protection business, with differentiated commission structures and product bundling to increase average number of policies per agent.

Fourth, intensified efforts in new customer acquisition and up-sell. Improve work processes to optimise resource allocation. Better leverage health insurance, pension and intermediaries in acquiring new customers. Pursue progress in central urban areas.

Besides, as for product strategy, the key is to satisfy diverse needs of customers in their life cycles, instead of solely depending on protection business. We will also increase penetration of major cities to increase our

reach to target customer segments.

In short, for the whole year, we foresee largely stable sales force, with improvement in quality and we are working towards better retention, productivity and income.

10. Q: Your accounting estimates increased your reserves by RMB537mn. Could you elaborate?

A: The basic curve of 750-day moving average went up slightly by 1bp-5bp. The discount rate beyond 40 years is a terminal fixed rate, and that for 20-40 years is based on interpolation. Therefore, the overall impact of T-bond yield movement on traditional insurance reserves was limited. At the same time, we reviewed our operational assumptions and adjusted the surrender ratio for certain business, and again, with limited impact. In balance, an increase of reserves of RMB537mn, and a small impact on financial results.

11. Q: The automobile business grew faster than industry, and why? What is the trend for H2?

A: The key drivers are, first, core channels grew as we expected, especially car dealerships and cross-sell; second, we rolled out the model for coupling of commission, discounts, claims and the underwriting profitability to optimise resources allocation, helping with sustainable and healthy

development of the auto business; third, in terms of customer service innovation, we continuously improved the customer-oriented service system, and last year, we launched the *Taihaopei* app, which was well received by the stakeholders; fourth, increased use of technology. The *Taihaobao* project demonstrated great potential in management of commercial lines automobile business, and won extensive recognition from the government, and commercial fleet firms, paving the way for healthy development of the auto business.

12. Q: Your agency channel FYC dropped by 20%, more than the decline of productivity. Why? Obviously the protection business grew much faster in FYP and NBV than savings.

A: Products with higher margin will have higher commission rates, but the total commission is also determined by “ticket size” .

Now our business mix is skewed towards protection business, with the share of savings down by 18.5pt, and that is the main cause of FYC decline, even though the margin on protection is about 4 times that of savings. We will balance between margin and FYP, and that between NBV growth and agent income. Essentially, we will persist in customer orientation, supporting our agents in providing products our customers need, which will also help us strike a balance between value and volume.

13. Q: The loss ratio of your property and casualty business decreased, and expense ratio went up, showing different trends from the industry. Why? What would be the impact of flooding in Shouguang of Shandong Province on your combined ratio?

A: First, allow me to share with you a set of statistics. Industry auto loss ratio fell by 0.6%, CPIC by 0.7%; industry expense ratio up by 0.9%, and CPIC by 0.2%. This shows that our auto insurance performance is better than the industry average.

The hike of expense ratio was caused by several factors. First, rapid premium growth led to higher commission expenses. Second, we beefed up investment in emerging lines, such as purchase of new equipment for agricultural insurance and R & D. Third, we were prudent about reserves, with continuous increase in IBNR factors. Going forward, based on our own realities and market best practices, we will continue to increase the share of high quality business, enhance risk management, and increase the centralised operation. The disaster in Shouguang has limited impact on the combined ratio of our agricultural business.

14. Q: Your life business came across difficulties in H1. Given the usual practice of the industry, 2-3 months from now you' ll be preparing for the jump-start next year. But do you have any plan to adjust the schedule of 2018 jump-start, say, postponing its preparation?

A: Even before we felt the squeeze of the changes of environment, we had already formulated the strategy to iron out big fluctuations in business growth, which was also integrated into our KPIs, including those of our branch offices, on a monthly, quarterly and yearly basis. We have reason to believe that development will be more evenly spread across the year.

The strategy for the jumpstart needs continuous reviewing and adjusting. But the fundamental is preparation in terms of customers, understanding their needs, training of the agents and development of products. Our target is to deliver more balanced growth across months and quarters.

15. Q: Your agricultural business grew rapidly in H1, ranking the 3rd on the market. How do you see the trend of growth in the future?

A: Over the past 2 years, China's agricultural insurance has been growing rapidly, and is now only next to automobile insurance, yet with greater potential. Going forward, first, with the implementation of national strategies for rural areas, agricultural business will remain a priority for the Group, with earmarked budget of investment; second, we will persist in the development model underpinned by innovation of technology and products. The "e-agricultural system" and income indemnity products have won recognition of governments, regulators and farmers; third, we'll increase integration of Anxin with CPIC P/C, combining the strength of the former in

insurance expertise and the latter in service network; fourth, continuing to expand our business geographies and working towards building our agricultural business into a role model for the market, characterized by good management and leading expertise.

16. Q: Your automobile business grew faster than peers, especially dealerships and cross-sell. Why? What did you do differently?

A: Auto business forms the bulk of our property and casualty business, and the performance in H1 was a result of process management. To be more specific, first, we adhered to “3+N” channel strategy, concentrating resources on them. Besides, there was also big progress in centralized management of cross-sell. Second, resources allocation is key. We rolled out the model of “coupling of commission, discounts, claims and combined ratio” , to better match prices and risks, with tangible results. Third, we stepped up development of commercial lines auto business, leveraged the *Taihaopei* project to enhance full-process risk control and put in place a unique model of management. The platform will be rolled out by the end of the year and will help to boost sustainable development of the auto business.