Summary of Q & A of 2020 Interim Results Announcement

（August 2020）

1. Q: There have been some recent changes to the board. What effect will this have on your general business management?

A: The first half of 2020 was unforgettable and full of unexpected things. At such times, we should neither be over-optimistic nor over-pessimistic. The key thing is to handle the challenges properly and do the right thing. The board meeting and the general shareholders' meeting have recently approved the overall business management plan going forward.

Generally speaking, in the first half of the year we delivered a stable business performance through aggressive moves in transformation, with business results largely in line with our expectations. Indicators such as Group OPAT maintained fast growth. The P/C insurance segment increased its market share, while maintaining profitability. In the face of the pandemic, we did not give up or shy away from the responsibilities. Instead, we maintained a high morale and worked even harder. Life insurance business persisted in the focus on value, continued to upgrade the agency force, and systematically conducted training and cultivation of new generation agents and high-performing agents, with recent launch of the supportive system for high-performing agents and the June 16th "Sales Partner Day". Our asset management persists in prudent, long-term and value investing, with fast growth of third-party AuM. It's a reflection of the trust from our customers, and also a big responsibility on our shoulders.

We adapted to the changing environment and made full use of favourable circumstances. We achieved further enhancement of corporate governance through GDR listing, evidenced by improvement in shareholding structure, board composition and the set-up of board committees. Among the new board members, there is Mr. John Robert Dacey, CFO of Swiss Re, Ms. LIANG Hong from Hillhouse Capital and Ms. LIU Xiaodan, an independent director. There are 4 female directors out of the 15 board members, a high percentage by the standard of large firms. The new board will lead the broad-based effort to pursue sustainable development.

We forged ahead with innovation in institutions and mechanisms. Our key business segments will introduce a new incentive scheme known as "the Ever-green Plan". It is expected to cover over 1,000 employees, from key positions of headquarters to grass-root branch offices. The incentives are tied to long-term business performance, with mechanisms of lock-ups, deferred payment and claw-backs, given the long-term nature of insurance. Of course, this is a long-term cash incentive scheme, not an employee ownership scheme.

Technology is high on our agenda. The board has recently approved the proposal to establish CPIC Fintech, which was later approved by the general shareholders' meeting with a high percentage of votes in favour. The new company will adopt market-oriented mechanisms to better motivate professionals. We have also launched a recruitment plan for top-notch technology experts, and have recruited several scientists leading in architecture design, big data, Internet applications, responsible for frontier technology research, building of infrastructural platforms and key projects in their respective areas of specialization.

“CPIC Home” is also proceeding according to plan. The construction of the facility in Chongming, Shanghai was kicked off on August 18. We will step up the building of a customer-centered ecosystem to boost the development mode of “insurance products + service”.

The board approved the strategy for health-related business. In the context of the domestic and international “dual circulations”, we will make breakthroughs in mechanisms, business areas and talent development.

The 9th board of directors will press ahead with transformation, adhere to high-quality development, stay focused on the core business of insurance, maintain dynamism and the sense of responsibility.

2. Q: The company’s general shareholders’ meeting recently elected 3 new directors, and one of them comes from Hillhouse Capital. Is Hillhouse a shareholder? How many shares does it have? Is the stake over 3%?

A: Hillhouse Capital is a shareholder of the company, represented by Ms. LIANG Hong on the board. Currently the shareholding of Hillhouse does not meet requirement for information disclosure, so we have no further information to share. Besides, under the company’ s Articles of Association, apart from shareholders who separately or jointly own over 3% of the company, the board or board nomination and compensation committee can also nominate director candidates. Under SEHK and LSE rules, the HKSCC Nominees Limited is the nominal holder of our H shares, and Citibank is the depositary of GDRs. Currently we have no further information to provide.

In the meantime, as the board lies at the core of corporate governance structure, its decision-making capability is essential to the company's healthy and sustainable development. We are glad to see that the new board is more professional, diverse and international. In terms of non-executive directors, Ms. LIANG Hong joined the board as a famous economist, which is essential to an insurance company with AuM exceeding 2 trillion yuan. We believe she will play her part in analysis of macro-economic trends, major investment decisions and deployment in new areas. Swiss Re, our GDR cornerstone investor, nominated Mr. John Robert Dacey, its CFO as a director on the board. Given Swiss Re's experience in insurance business, and in particular in big data, risk pricing and product innovation, Mr. Dacey will surely enhance our insurance expertise. In terms of non-executive independent directors, there is Ms. LIU Xiaodan, who has rich experience in domestic and overseas capital market transactions. Mr. JIANG Xuping, an expert in Internet marketing and management from Tsinghua University, serves as chairman of the newly-established Technological Innovation and Consumer Rights Protection Committee under the board. There is also Mr. Woo Ka Biu, Jackson, a well-known qualified lawyer in the UK, Australia and Hong Kong. His professional background in legal and compliance will improve our risk management capability as a company simultaneously listed in Shanghai, Hong Kong and London.

We are confident that the new board members will contribute to the continued improvement of our governance, paving the way for high-quality development of the company.

3. Q: What is management view on the growth potential of the health industry and the steps you will take to seize the opportunity?

A: We consider the health industry development in 2 dimensions, i.e., outlook for the industry and then what we will do.

In terms of the growth potential, our view is the potential is huge. First, China's 13th 5-year program defines the Healthy China Initiative as a national strategy, and sets the target of considerably increasing commercial health insurance claims pay-out as a share of total health spending by 2030. The share in 2018 was only 3%, while in some developed European markets such as Germany and France, it was 10%. Of course, the share in the US is even higher, almost 50%. In comparison, there is still huge space for improvement in China. Second, in January this year, CBIRC issued Opinions on Promoting the Development of Commercial Insurance relating to Social Services, which set the target of RMB2 trillion in premiums for the health insurance market by 2025. The premium income of health insurance in 2019 was RMB706.6bn, and assuming this target, the CAGR in the next 5 years will be 19.7%. In H1, in spite of COVID-19, health insurance held up well and maintained rapid development. Third, government policies provide a window of opportunity for insurance companies to step up investment in health care. China's medical insurance bureau issued Guiding Opinions on Improving Policies of Internet Health Care Prices and Payment of Medical Insurance, which allows Internet care to be covered by medical insurance. Opinions on Deepening Reform of Health Care System by the State Council legalizes doctors' medical practice in multiple hospitals. Moreover, the newly-amended Drug Administration Law of China legalizes drugs sold on-line. These policies provide ample space of development for commercial insurance.

However, there are 3 challenges facing the health insurance business. First is the pressure on business quality. The interests of insurance companies, care providers and customers are not fully aligned. There may even be a conflict of interest. Second is the homogeneity of health insurance products, which may trigger price competitions, instead of differentiation over service. Customers' diverse needs are not met. Third is the absence of health management services. For example, China has 270mn people suffering from blood hyper-tension, 130mn patients of diabetes. However, there are few insurance products or services that can meet the needs of people with such chronic illnesses.

To sum up, the market boasts huge potential but also faces acute problems, which requires breakthroughs on the supply side. Those who can solve the problems will be able to seize the historic opportunities.

We have completed the formulation of a top-level design for health-related business in the next 5 years, which has recently been approved by the board. The plan is also referred to as Strategy One Two Four Three. To be specific, we will focus on 3 customer segments, namely, individuals, firms and governments, foster capabilities in 4 areas, i.e., products, services, operation and risk control, put in place support of 2 kinds of resources, that is, big data and health sector equity investment funds, and manage and coordinate the process through a health business development commission.

We are committed to becoming a leading domestic provider of comprehensive health-related services. And we plan to achieve 3 targets. First is to build, via deployment in insurance + service, an ecosystem for health management with aligned interests between insurers, care providers and customers. Second, effectively support product innovation and risk control through big data collection, analytics and applications and foster our big data capabilities. Third is to sharpen the competitive edge in the number and quality of health care and big data professionals.

Based on the top-level design, we will leverage 3 strengths. One is our strength as an insurance group, with 141mn customers, a huge customer base. Our P/C subsidiary participated in many government-sponsored programs and accumulated rich experience in serving government clients. Our life operation provides protection and service to large numbers of individual customers. Our health insurance subsidiary has fostered capabilities in specialized products and professional services. In big data, we will leverage the overall strength of the group and increase the penetration of group customers by health insurance and health services. Another strength is the integration of commercial insurance customers, which is a new growth engine. We can provide tailor-made health management to different customer segments, such as healthy people, those with chronic diseases and special customer segments, based on integration of care, drugs and insurance. And this one-stop integrated solution can enhance customer experience in an all-around way. Then we will make full use of our strength in long-term funds, which is our moat. Through the establishment of health equity investment funds, we will make extensive investments in medical appliances and health management, with varying degrees of capital intensity, so as to cover the whole value chain of health management, medical treatment and recovery.

We will bring into full play market-based mechanisms, which is the key to the success of the plan and the capacity-building in various areas. Three factors are particularly important: resources, people and technology. We will pool resources in medical service, technology and capital and deliver a win-win situation based on collaboration and sharing. We will introduce market-oriented mechanisms so that we can get multiple parties on board and things can be done by the right people. Technology will change the way we serve customers, cultivating a competitive edge.

In a nutshell, we will move steadily, and step by step, with innovative mechanisms and institutions, towards our target so that health-related business can become a new growth engine of CPIC.

4. Q: The net profits for the first half of the year fell by 12%, while those for last year grew by 54%. OPAT growth for H1 this year is 28.1%. Why such big ups and downs? Is there any information you withheld?

A: The decline of net profits in H1 is mainly due to 2 factors: one is the raised upper limits on tax deductibles of fees and commissions in May last year, with rebate of corresponding tax payments from 2018. The rebate was booked as profits of 2019, hence a high base in H1 2019; the other is the impact of the decline of T-bond yield curve, which led to increase in reserves and decrease in net profits. The volatility of net profits was caused by external factors, not by our own business operation.

At the same time, to offer a better and more balanced view of our business performance, and in light of the long-term nature of the insurance business, we started to disclose OPAT in 2019 interim results. Since then, the indicator maintained steady growth, including the first half of this year. We believe this is a result of our focus on insurance and balanced development of business segments. To be specific, we give priority to quality, and delivered sustained accumulation of high-margin life insurance business, continued improvement in the combined ratio of property and casualty insurance, and sustainable investment income.

Last but not the least, in terms of valuation, sustainable profitability is the foundation of shareholder return. As the industry enters a new cycle of development, OPAT may be an important component of the insurance valuation system in tandem with EV and NBV.

5. Q: Your OPAT grew rapidly in the first half. Could you elaborate on the driver attribution? The P/C insurance saw decline in net profits but fast growth of OPAT. Why? What is your guidance for the OPAT growth in the next 2-3 years? What is the reason for the slow-down in residual margin growth?

A: In H1, Group OPAT grew by 28.1%, consisting of 2 parts. First, non-life OPAT grew by 58.1%; second, life insurance OPAT grew by 20.7%, with the growth rate 1.8pt higher than the same period of last year, mainly due to experience variance in mortality and morbidity. The non-life part was the main contributor of fast Group OPAT growth this year.

P/C net profits decline is mainly because of the income tax rebate last year, leading to a relatively high base in 2019. The P/C OPAT includes both underwriting profits and investment income. Both increased in H1 this year. However, the impact of tax rebate was excluded in the OPAT calculation, hence the high growth rate this year.

In the next 2-3 years, OPAT growth will be in the positive range.

Growth of residual margin is closely related to new business development, which was under pressure this year, hence the slow-down.

6. Q: Given decline of net profits but growth of OPAT, what is your guidance for shareholder dividend?

A: In the context of great macro-economic uncertainties, we will try our best to fulfill the business budgets.

The shareholder return is a long-term commitment. When we set the dividend level for 2019, we already considered the challenges and difficulties we might encounter in the pursuit of transformation, and the possible impact of economic slow-down in the future.

We will continue to work hard and strive to deliver a sustainable and stable shareholder return to meet their expectations.

7. Q: In your EV report, the cost of required capital held as a share of NBV fell versus that of the same period of last year. Why?

A: The decline was mainly due to change in product mix. The new products we sold required less capital.

8. Q: Could you elaborate on your internationalization strategy?

A: Given the pattern of “dual circulations” with the domestic one at the core, CPIC not only needs to focus on the domestic market and pursue high-quality development, but also needs to step up import of overseas technology and talent so as to enhance our capability in traditional insurance businesses, health and retirement businesses, technology and asset management, which, in turn, can support the development of our domestic business, and the pattern of “international and domestic circulations reinforcing each other”. We would strive to be one step ahead of our peers in business management capability and philosophy, in a bid to enhance our market competitiveness.

Our internationalization will be implemented in a differentiated manner. We’ll be selective, and will not blindly pursue business volume or top-line growth. Instead, we focus more on whether it is aligned with our overall strategies, or conducive to our capacity-building and long-term value growth.

The use of the proceeds from GDR issuance will be within the scope of the Prospectus. Our preliminary thinking is to enhance our life and P/C insurance platforms in Hong Kong, which would serve as a stepping-stone for further international development and may also benefit our moves in the Great Bay Region. To be specific, our priorities include deployment around the “Belt and Road Initiative” to support the P/C business, enhancement of overseas asset management capability to support overseas ALM, strategic investment in health and retirement-related sectors to improve our capability in the provision of products and services, and technology R & D to boost the development of insurance business.

We will persist in long-term, prudent and value-investing. We have engaged a world renowned consulting firm to help us conduct overseas investment planning and market analysis, and improve the governance system and processes for overseas platforms.

9. Q: You recently announced your plan to establish CPIC Fintech, and could you elaborate on its business model and strategic positioning?

A: The rationale of CPIC Fintech is as follows. First is to embrace industry trends and dynamics. Fintech has become a key driver of the insurance market, and a key driver of business development instead of only a supportive factor. Second, in terms of regulatory supportive policies, last year PBoC issued The Development Program of Financial Technology between 2019 and 2021, which explicitly encourages licensed financial institutions to establish fin-tech subsidiaries according to laws and regulations.

The establishment of the subsidiary will stimulate dynamism in 3 ways. First, setting up a market-oriented entity will improve organizational vitality and boost productivity. Second, the establishment of a market-based incentive and performance evaluation system will better motivate talent. Third, a better allocation of data as a key production factor will make data a more dynamic contributor.

10. Q: Could you update us on the restructuring of the agency force? Some of your peers have revised the regulations on agents. What is your plan or strategy?

A: Last year, we put forward the strategy of agency force restructuring, which focuses on the 3 teams of the core manpower, ultra high-performing agents and new generation agents. In Q2, the 3 teams fared much better than in Q1, and the momentum of improvement continued into the second half of the year. The measures taken include, among others, the release of the cultural system of high-performing agents, and the launch of the “Sales Partners Day” on June 16, the first of its kind in the industry.

We will amend the agent regulations in an orderly manner, in line with the direction of agency force restructuring. To be specific, our approach can be summarized as “expanding the width” and “deepening the depth”, in a bid to achieve quality improvement while maintaining healthy headcount growth momentum.

At the same time, we are making progress in technological empowerment and service expansion, the 2 new drivers of the transformation. For example, in technology, in the face of the pandemic, we developed a full range of tools from recruitment to training, and from customer engagement to agent activity management. Service expansion was also a powerful enabler of agency activity in the first half of the year in the face of the pandemic, such as the “CPIC Blue Passports” program, “Tele-doctor”, “CPIC Home” and “Life Bank” of human immune cells, which cater for high-end customers. These value-added services considerably enhanced our operational efficiency.

11. Q: In your interim report, the number of new policies per agent increased while productivity and FYC per agent fell. Why?

A: We sold many riders as part of a pillar protection product in the first half of the year, which has impacted the new policy numbers. The decline of agent productivity and FYC was mainly due to lower performance ratio in February and March. Excluding this factor, the productivity would have gone up.

12. Q: The NBV margin of individual customer business went up a lot in the first half of the year. Why? Given intense price competitions, do you foresee any downward pressure on margin?

A: Our first priority is to pursue growth of value in “dollar” amounts. In the second half of last year, we launched a new critical illness product with much higher NBV margin compared with similar products in the past. That is the main reason for higher margin of individual customer business.

In the face of market competitions, the margin on similar products may gradually trend down. But we will take a host of steps, such as product innovation, to stabilize the overall margin.

13. Q: The commission on long-term health fell in H1. Why?

A: The product we sold was the bundle of traditional life insurance product and riders of critical illness, and their fees and commissions were all recognized under long-term health insurance. But this year, we adjusted the rules, and the commission on long-term health insurance only includes riders, hence the decline.

14. Q: What will be the impact of auto insurance comprehensive reform on your P/C business? What is your coping measure? What is the main reason for lower combined ratio in the first half of the year?

A: Generally speaking, auto business delivered solid performance for the following reasons. First, we continued to enhance business quality management, so the overall business quality improved. Second is the impact of COVID-19, which drove down the claims frequency. Third is significant improvement in the efficiency and resources allocation as a result of enhanced management of auto insurance over the years. Besides, technological empowerment greatly improved our operational efficiency.

Recently the regulator released the exposure draft of the reform to solicit public opinions. According to these materials, the main purpose of the reform is to enhance consumer protection. The reform can be summarized as “lowering price”, “increasing protection” and “improving quality”. In terms of its impact, premium per vehicle will come down considerably, and in turn, the loss ratio will go up. Besides, the draft also requires the provision of premium inadequacy reserve. As a result, the combined ratio is expected to go up steeply in the short term.

To cope with the impact, we will focus on the following key measures. First is the acceleration of the transformation of the customer-oriented operational model. Second is the deepening of synergic development, and particularly integration of channels. Third is the optimization of resources allocation so as to enhance enterprise-level operational capabilities. Fourth is promoting CPIC Service to enhance customer experience.

15. Q: What is the investment yield so far in the second half of the year? What about the investment portfolios?

A: Generally speaking, the investment performance so far in the second half of the year is satisfactory.

In terms of asset allocation, the majority is fixed income assets. The interest rate fell sharply and then experienced a V-shaped rebound in H1, and since then has been largely stable. Yields on fixed income investments to date maintained a satisfactory level. We seized opportunities and focused on long-duration assets in new money and reinvestment allocation.

As for equity investments, China's capital market rallied since July 1, and our position maintained overall stability, enabling us to benefit from the market rally.