

Q&A for CPIC 2022 Annual Results Announcement

(Shenzhen & Shanghai, March 2023)

1. Q: In recent years, due to economic slow-down, both the banking and the insurance sectors are facing grave challenges. What is management view on your business performance in 2022? Looking ahead, challenges and uncertainties may still persist. How do you plan to cope with them to fulfill your vision of “industry leadership in healthy and steady development”?

A: The way to see business results in 2022: first, scale. As an insurance group headquartered in Shanghai, we delivered industry leading business growth, thanks to the concerted effort of all CPIC employees. Second, quality. Business quality of P/C insurance was the best in a decade. In the 1st year of the Changhang Transformation, key metrics of our life insurance business also saw signs of improvement, and the momentum continued into Q1 this year. In Q4 2022, CPIC Life and CPIC P/C ranked AAA and AA respectively at the regulatory IRR, maintaining industry leadership. Asset management took a pro-active approach and maintained resilient investment performance. Third, growth. There was growth in Group number of customers and number of customers with multiple insurance policies, pointing to progress in synergy, which is also one of the priorities of Transformation 2.0. Our strategies in health care, big data and regional integrated development proceeded as planned. At the upcoming ceremony of the launch of Healthy China - CPIC Action, you will see more concrete examples of enhanced capabilities and expanded scope of customer service. Five more CPIC Home retirement communities will open for business this year, on top of the 3 facilities that are already operational.

In the face of complicated business environment, we must adhere to 3 basic elements and 3 key factors, so as to fulfill the vision of industry leadership in healthy and steady development.

Basic elements: 1) We will stay value-oriented, adopt a long-term view and always remain vigilant of major risks in business management. While promoting insurance

business development in an orderly manner, we set great store by our responsibilities as an asset manager. 2) We are committed to innovation. Insurance business is a traditional sector, but it's also an emerging sector. In the medium and long term, we will implement the 3 key strategies to boost innovation and inject new vitality into the industry. 3) We will uphold business quality management to protect consumers and fulfill our responsibilities to investors by means of enhancing professional expertise of sales personnel and incorporating CPIC Service into the corporate culture. In brief, value growth is the core, and innovation defines our strategy, which, coupled with insurance business quality management, constitute the 3 basic elements of healthy and steady development.

Key factors: 1) Digital transitioning. We will capture opportunity of the Digital China Initiative and drive business development through digitalisation, aiming for industry leadership. 2) Talent. We will pay even closer attention to recruitment and retention of talent based on market-oriented mechanisms, especially young talent from around the world, while abiding by relevant norms and rules. The incentive system will be more scientific, effective and rule-based, helping to ensure sustainable development of the company. 3) Off-limits thinking. We will always give first priority to customer interests and compliance in business operation, and cement the foundation for healthy and stable development.

2. Q: It's been over a year since you kicked off the Changhang Transformation Phase I for life insurance. The reform has delivered some initial results amid industry pressures last year, evidenced by improving NBV growth and core capabilities. Will there be a Phase II? If so, what would be its focus and key initiatives? Has the reform proceeded according to plan so far? What are the biggest difficulties or challenges you encountered?

A: The progress of the Changhang Transformation so far is largely in line with management expectations, with projects in agency force, distribution channels and products proceeding according to plan. Going forward, the focus will be on deepening organisational restructuring to better motivate branch offices at various

levels, which, in turn, would release potential and improve productivity. The rationale is that optimised organisational structure and improved professionalism of staff could better match the career-based, professional and digital transformation of the agency channel.

The reform in the past year has delivered benefits, though it was an arduous journey, particularly given challenges of the market environment. There were moments of anxiety, stress and even agony. But the worst is over, thanks to steadfast effort in the past year. In Q1 this year, business metrics demonstrated momentum of improvement. The biggest difficulty was the constraint of time, especially last year, given the complication of multiple challenges. Last year we rolled out the top-level design to branch offices. and we acutely felt the pressing of time. Good news is that there has been a strong consensus on the direction of transformation, and if we press ahead and maintain consistency, we will reap more benefits.

3. Q: Your P/C insurance business posted an overall better-than-expected set of results, particularly rapid premium growth with notable improvement in underwriting profitability. How did you achieve this? Given sustained improvement in underwriting profitability in the past 2 years, what is your long-term strategy in today's market environment?

A: With the hard work of the past year, we cemented foundation of sustainable development, and increased the market share by 0.3pt, with that of auto, non-auto and agricultural business all reaching double digits. In the meantime, the combined ratio was the best in the past 10 years, at 97.3%, down by 1.7pt year-on-year, with an ROE of 16.7%, also a 10-year best.

We optimised the customer resources management (CRM) structure and took effective measures to translate uncertainties of the business environment into certainties in our own business results. We established the Business Development Centre of New Energy Vehicles, promoted the building of new business models in a systematic way, with the market share of NEV reaching 13.7%. Combined ratio of non-auto insurance stood at 98.1%. We made a particular effort to address loss-making business lines such as employer liability insurance and delivered good

results. Our share of agricultural insurance market rose to No.2, with a turnaround of livestock farming insurance.

Committed to high-quality and sustainable development, we formulated relevant strategies with 3 priorities: 1) To drive sustainable development, we stepped up deployment in emerging business areas such as green insurance, technology insurance, and sannong (i.e., rural areas, agriculture and farmers)insurance, set up a centre for sustainable development, formulated green insurance standards, with first-mover advantage in NEV auto-insurance, loss reduction and risk mitigation of green power, and innovation in carbon assets. 2)To enhance business resilience, we drafted plans for systematic capacity-building, which focused on forward-looking business deployment, targeted customer resources management and centralised management of middle platforms, and thorough execution, aiming for more effective and targeted business management. 3) To realise systematic management, we embarked on an all-around building of the digital and smart business management system. One initiative is to build the CPIC P/C Cerebral for effective collection and management of data assets and roll-out of data network. Second is to use practical smart technology to realise automated operation and customer service.

4. Q: Last year, the domestic and international environment was fraught with uncertainties, which posed a formidable challenge to insurance asset management.

What is your outlook for the capital market in 2023? What is your investment strategy this year? And what is the outlook for your investment performance this year?

A: In 2023, China's economy is expected to weather the short-term shocks and get back on track of gradual recovery on the back of government policies to stimulate domestic demand. Statistics in the first two months of the year indicate weakening demand overseas in the context of global economic slow-down, hence the rationale for the Chinese government to boost domestic consumption. Therefore, we expect steady recovery of China's economy, which is likely to grow 5% for the year, coupled with improvement in companies' profitability. That would be a bright spot amid the economic downturn of the world. In terms of asset allocation, global investors will

pay more attention to Chinese assets. On the equity market, as China's economic cycle shifts from contraction towards recovery, and the US Fed considers an end to the spell of interest rate hikes, stocks may benefit from expectation of domestic economic growth and improved liquidity on the overseas market. At the same time, dividend yield and equity risk premiums are currently at historical highs, meaning stocks are more attractive relative to other asset classes. As for trends of interest rates, amid economic recovery and credit expansion, the benchmark of interest rates may go up slightly, but we believe there is no policy inclination towards strong stimulus. So we expect a gradual process of economic recovery, with the risk of steep increase in interest rates under control. What we need to watch for is the return of core inflation and the volatility of the wealth management products, which may trigger increased redemption, and this in turn will exacerbate the volatility of the bond market. When it comes to asset allocation strategies, with the adoption of new accounting standards near at hand, we face a major challenge in balancing asset volatility and returns. In the meantime, we will persist in the long term, prepare for the worst, optimise strategic asset allocation across economic cycles and conduct more pro-active and effective tactical asset allocation.

This year, we have 3 priorities in asset allocation. 1) ALM in light of the long-term nature of insurance funds. Long-term T-bonds remain the key asset class for allocation, which serves as the bedrock of our investment. We'll dynamically adjust the timing and size of such investments based on market conditions, i.e., increasing allocation in T-bonds at a time when interest rates are relatively high. 2) In equity investment, the primary focus is balance between volatility and long-term returns. In this respect, we have 2 strategies. First is to increase exposure to industry champions with high dividend yields and stable business performance. These are long-term investments, mainly intended for high dividend income and return stemming from improving business results. Therefore, they are assets for "allocation purpose" which will generate medium and long-term returns. Second is to increase exposure to firms with high growth potential in line with the direction of China's high-quality development strategies. Specifically, there are consumption and health care, which

can meet demand of the Chinese people for a better life, and green economy, digital economy, specialty firms, energy security and value chain security, which are related to the building of China's modern industrial system or national security.3) Gradually expand the scope of investments into alternative investments including new types of infrastructure projects, ABS and REITS as a supplement to long-term assets. Given the long-term nature and stability of insurance money, we will diversify channels of alternative investments in line with government policies, centring on areas of regional coordinated development, rural invigoration, new types of infrastructure, affordable housing, and the building of city clusters, supporting national initiatives and the real economy on the one hand and generating long-term and stable returns on the other hand.

5. Q: You continued to implement the 3 key strategies in health care, big data and regional integrated development. Could you elaborate on the progress you've made and the plans for the future?

A: In 2020, the board made a strategic decision to implement the health care strategy, based on two principles. First is value creation. We deploy in health care bearing in mind the full life cycle of our customers, seeking to create value for them. Second is a long term view, since health care is a big system. There are things we are sure about and things we are not. For the former, we will go ahead firmly, and for the latter we will make exploratory efforts.

Currently, the strategy is no longer blueprints. It has got off ground and started to show tangible benefits. Group-wise, health insurance premiums grew steadily, with the number of customers using medical service growing by 150% in 2022.

To be more specific, the health care strategy strives to achieve 3 objectives: 1) Increase the role of private insurance as a payor in the 2nd and 3rd pillars of health care and retirement provision system. For example, high-end medical insurance enables us to provide comprehensive medical solutions to corporate clients instead of merely medical cost reimbursement. For individual customers, health insurance, particularly medical insurance, can now cover substandard risks such as elderly people and customers with prior conditions.2) Build an integrated system of

products and services, and leverage service to enhance our core competitiveness. We have launched a series of service programmes covering both on-line and off-line, centering on the two customer segments, i.e., the elderly and the teenagers. We launched CPIC Family Doctors, an on-line health management platform; we joined hands with the Medical School of Shanghai Jiaotong University and established a specialised institute for rehab care, and started the construction of rehab care hospital chains under the brand of CPIC Rehab; established the Institute of Health Promotion Industry in collaboration with Shanghai Sport University, and rolled out China's first health promotion programme for teenagers; invested in high-end care providers such as Guangci Memorial Hospital and United Family Hospital (UFH). On the retirement front, there are more than 3,000 beds in operation under CPIC Home, a brand for retirement communities. The diversification of service offerings will enhance the competitive edge of our insurance business. Besides, we facilitated the career-based and professional restructuring of the agency force of CPIC Life. We cooperated with Shanghai Ruijin Hospital and launched a training programme for health management, which covered 10,000 agents last year, and we plan to cover another 10,000 this year. 3) Courses for horses. One of our strengths is market-based mechanisms as an SOE, which enabled us to attract and recruit a large number of leading experts and professionals in product development, service innovation, medical and pharmaceuticals and health care data, laying a solid foundation for development.

The year 2023 marks the 3rd year for the implementation of the 5-year plan of health care. Half-way through, we will persist in the principles of value-creation and long-term view, and deliver more results to reward investors.

The big data strategy has been implemented mainly via formulation of plans and their execution. We started to draft our technology plan back in 2002, and in the past 3 years, the updated plan, known as ITDP2.0 focused on capacity-building in 5 areas: governance & management, independent R & D, collaboration, data service and innovation-driven development.

Accomplishments in the past 3 years: 1) In talent mix, the share of high-end talent

rose to 60%, and of this, AI professionals increased by 70%, big data professionals by 93%. We also delivered some breakthroughs in intellectual property rights, and last year a total of 78 patent applications were accepted by the State Intellectual Property Rights Bureau, with copyrights of 61 pieces of software registered at the State Copyrights Bureau. 2) On the front of productivity, the Operational Centre and the R & D Centre both saw improved productivity. AI and RPA helped to reduce annual operational cost by hundreds of million yuan in the past 2 years, contributing to optimised IT resources allocation. 3) As for data service capability, we completed integration and cleansing of 970mn pieces of data for Group-unified data service, established 15 data domains, with over 8,800 public data models and multiple big data applications, which supported over 170mn times of internal and external data access. 4) In respect of AI, we set up a Group-unified AI middle platform, cultivated atomic capabilities in 100 areas, empowered business scenarios via 56 applications, with 215mn times of AI access for smart interaction in 2022, up by 103%.

We are in the process of formulating a new version of ITDP as the plan for technological empowerment going forward. The top-level design focuses on data, regarding it as a key production factor. ChatGPT also deserves a lot of attention, as we believe the emergence of digital employees and digital agents could be a major breakthrough in customer service of the new era for life insurance business. The big data strategy ultimately boils down to insurance business, which calls for even closer combination of technology planning with business, and this is what we mean by new customer service, new customer segments, new risk control, new operation, new financial and actuarial service and new investment research.

The strategy of regional integrated development has paid dividends in project building, shift of CRM paradigm, technological empowerment, and innovation in products and services. In the Yangtze River Delta Region, we will consolidate our traditional advantage, continue to increase value contribution from the region, and at the same time leverage commercial insurance in environmental protection and social governance in response to the national initiative of the Yangtze River Delta Integrated Development. In the Greater Bay Area, apart from rapid business

development of both P/C and life insurance, we have set up a low-carbon fund and a fund earmarked for innovation in the Greater Bay Area, continuously promoted product and service innovation, launched a host of tailor-made, specialised products and services for the region, and accelerated technological empowerment. In the Area of Beijing, Hebei and Tianjin, the priority is to step up cooperation with central government agencies and SOEs directly under the central government, accelerate business development of key areas, strive for breakthroughs in emerging businesses and enhancement of CRM capabilities.

6. Q: IFRS9 and IFRS17 will be adopted this year. What impact will this have on your key financial metrics, like profits, net assets, and on your business management, such as product strategy, business strategy and asset allocation?

A: As a company listed in Shanghai, Hong Kong and London, we will adopt the new accounting standards on insurance contracts and financial instruments on Jan.1, 2023. Under the new accounting regime, premium income will go down considerably, with increased uncertainty surrounding profits and net assets.

The reason for decline in premium income is the change to method of income recognition for life insurance business. First, the investment components will be removed, and income will be gradually recognised over the duration of the insurance contract; on the P/C side, there is not much difference in insurance revenue between the old and new accounting standards.

Volatility of net profits would increase. Under new accounting standards on financial instruments, more financial assets will be measured at fair value through profit and loss. Therefore, market movements will directly impact profits, leading to greater volatility of this financial indicator. Under new rules on insurance contracts, on the life insurance side, changes to discount rate will be absorbed by other comprehensive income, changes to operating assumptions will be absorbed by CSM, and participating business may use the VFA method. As a result, volatility of liabilities will be reduced. That being said, profits overall will see more volatility. On the P/C side, with the adoption of IFRS9, profits will also experience increased volatility.

Net assets will be more volatile. In life insurance business, under the old standards, reserve is calculated using the 750-day moving average of T-bond yield, which can iron out the volatility to a large extent. But under IFRS17, contract liabilities will be measured using the spot T-bond interest rate, which could result in increased volatility in tandem with interest rate movements. On the other hand, fixed income assets measured at fair value would move in an opposite direction, and thus would be able to offset part of the volatility of liabilities. In balance, net assets will see greater volatility. As for P/C insurance, we do not see much impact.

The new accounting rules will impact both financial results and business management of the company. But it does not change the underlying logic of insurance business operation. Criteria for evaluation of business quality would stay the same, and so will the assessment of risk-reward profile. We will continue to pursue steady value growth, and the KPI system will be consistent. Of course, the adoption of the new accounting regime would call for enhanced business management and capability in ALM.

Going forward, we will persist in high-quality development, put in place mechanisms for business mix management, operating variance management and ALM that are compatible with the new accounting standards, and take the opportunity to accelerate transformation in business management. In terms of business mix adjustment, against the backdrop of interest rate decline and increased market uncertainty, we shall pay more attention to participating insurance to diversify the business mix and cushion the impact of market volatility on investment income.

Under the new accounting rules, there will be increased transparency surrounding disclosure of business results, particularly life insurance operating variance. Hence the need for strengthened operating variance management, including attribution analysis, assignment of responsibilities, optimisation of management, in order to drive positive operating variance growth. In ALM, there will be material changes to measurement of both assets and liabilities under the new accounting standards, which calls for adherence to long-term, prudent investing and a dynamic process of asset-liability management based on profiles of asset and liabilities, and the new

accounting rules.

7. Q: The recent crisis of foreign banks has attracted a lot of attention, which may have ramifications for the entire financial services sector. In the face of complicated domestic and overseas market environment, what will CPIC do to manage the risk? What useful lessons can you learn from the crisis?

A: The recent crisis of Silicon Valley Bank and Credit Suisse sent shock waves throughout the global market, stirring panic and causing worries about the systemic risk of the global financial market. We conducted a risk screening immediately, which shows no exposure to troubled financial institutions. Of course, the crisis is still evolving. Uncertainty of the world economy is rising. In particular, we must stay vigilant of the liquidity squeeze in the financial sector.

We believe the duration mismatch of assets and liabilities, and problems with liquidity and concentration management and internal control could be the recipe for disaster. Financial institutions in essence manage risks to support the real economy, and they should not be the cause of risks or spread risks. For the insurance industry, the duration match of assets and liabilities is a common challenge. Insurance companies must enhance liquidity and concentration management, optimise emergency response mechanisms so as to prevent and mitigate the risk of duration mismatch, which is the focus of our risk management.

The State Council will establish the State General Administration of Financial Supervision on the basis of CBIRC, which means further tightening of control of financial risk. As a leading insurance group in China, we are committed to forestalling major risks in our business operation. So we will balance between development and safety, firmly pursue high-quality development, continue to optimise business mix, put in place a risk management system compatible with our strategic objectives, continuously improve corporate governance, enhance early-warning and handling of risks, in a bid to effectively lower uncertainties in our business operation.

Next, our work will focus on 3 aspects: 1) Deepen supply-side structural reform and forge ahead with the key strategies of health care, regional integrated development and big data. 2) Enhance the core business of insurance to improve value-creating

capabilities. Specifically, our P/C business segment will focus on underwriting profitability, while capturing opportunities of the green, low-carbon social and economic transitioning of China; our life insurance business will focus on paradigm shift of value growth, push forward the Changhang Transformation in an all-around way, and deliver sustainable NBV growth. 3) Adapt to the adoption of new accounting standards. This will not change our business objectives, and we will continue to pursue steady and sustained value growth; nor will the new accounting rules change our business strategies, which will be dictated by market needs, our core competitiveness and value-oriented philosophies. We will bear in mind the target of high-quality development, put in place systems of performance management, ALM, operational management which are compatible with the new accounting standards and ensure a smooth transitioning.

8. Q: Your cash dividend for 2022 was 1.02 yuan per share, which is lower than expectations of some investors. What factors did you consider in determining this DPS level? Given the adoption of C-ROSS II, new accounting standards and other new regulatory regulations, would you consider adjusting your shareholder dividend policy?

A: With the introduction of C-ROSS II, CPIC P/C issued capital bonds, which raised its comprehensive solvency margin ratio by 25pt; CPIC Life planned on issuing perpetual bonds, and is now making preparations for this.

Our policy is to generate long-term and stable returns for shareholders, and the DPS level is set based on our profits, needs of business development, and solvency.

Currently we are stepping up deployment in health care, regional integrated development and big data, and on the other hand, the Changhang Transformation is embarking on a new stage, with investment on multiple fronts to boost business development. We are committed to giving back to shareholders and other stakeholders with long-term, stable and sound business performance.

9. Q: Whole life insurance with increasing SA is an important source of NBV. What is your view on the regulatory risk and development outlook of this product?

A: Whole life insurance with increasing SA is a popular product which meets

customer demand for retirement saving and wealth management. We will reconsider the product design in view of trends of interest rates. In other words, if interest rates continue to go down, it will be designed as participating insurance to realise better matching between asset and liabilities and to control risks.