Summary of Q & A for Q1 Report

1. Q: What is the one thing that you are most happy about and one thing that needs improving in implementing Phase I of the Changhang Transformation? What is your expectation for Phase II of the programme?

A:In Phase I, we focused on channel restructuring, and the progress is in line with our expectations. We put in place a new set of values and work mode, built broad-based consensus on the need for transformation and established a virtuous cycle. That being said, it takes time for new capabilities and habits to deliver benefits. We are now working on the design of Phase II, which aims to build a new organisational model, i.e., a model with headquarters focusing on empowerment and branch offices on independent business operation. Currently we have rolled out independent business operation of agents, and next we will promote this among staff, so as to establish a business model centering on customers and the agency force, underpinned by integrated mode of management, support and service throughout the organisation. In brief, Phase II seeks a paradigm shift for both agents and staff to boost productivity and long-term, healthy business development.

2. Q: Based on your Q1 report, there seems to be a recovery of NBV margin. Why? Was this in line with management expectations? Targets for the year?

A: With improved selling skills, the agency channel has started to sell more annuity and whole life products with increased SA with long pay period to satisfy customers' needs for retirement savings. Going forward, we will continue to enhance their capabilities to sell protection products. In terms of product strategy, NBV margin of the same products remained largely stable. This year, we have upgraded certain products in response to customer demand and market trends which also played a part in NBV margin improvement.

Since the launch of Phase I of the Changhang Transformation, we've been promoting new values for business, namely, the focus on normalised sales and recruitment, with an integrated approach to year-end sales and year-beginning sales campaign. The new philosophy has been endorsed by the entire company. Everyday is a game day. Business results in Q1 stemmed from this paradigm shift, and were recognised by both customers and the agency force. They are also in line with management expectations, with solid performance in agent productivity, activity ratio, retention ratio and productivity of new recruits .

3. **Q: What is the current agent headcount? Seems your core agents have stabilised. Will there be further growth? What is their share of NBV?**

A; In Q1, total agent headcount was stable, with some growth. But we expect volatility for the whole year. In 2023, we will continue to consolidate the foundation of core agents, which calls for some restrictions on the number of new recruits, and minimum requirements for retention and competence of new recruits. For the year, our target is improvement in productivity and income of core agents; for 2024, we hope there will be both headcount growth and productivity gains for core agents. Currently, core agents contribute over 90% of NBV, which is exactly why they are management priority.

4. Q: According to media reports, the regulator is soliciting industry opinions on lowering pricing interest rates of traditional products. What impact would this have on CPIC? What measures will you take to cushion the impact? What is the share of products with a pricing interest rate of 3.5% in terms of total sales?

A: We are in close communication with the regulator on this. Essentially, we support the direction of the change, as it helps to lower the cost of liabilities of insurance companies in the context of secular decline of interest rates. The move is conducive to healthy development of the industry. The impact on us would be limited. First, demand remains intact. We will continue to see strong needs for mid and long-term savings products, such as pension and annuity. Second, given the downswing of interest rates, compared with other wealth management products, insurance is a good option for asset allocation. Our own survey shows that there has been increasing awareness of insurance as an instrument of asset allocation, which will underpin robust demand for insurance in the medium to long term. To meet customer needs for long-term retirement provision, we are now looking at participating products, which we plan to launch in the second half of the year. They provide a minimum guaranteed interest rate and enable customers to share the profits of insurers' business operation. At the same time, on April 1, we launched a new CI product, which offered customised protection levers for different customer segments, as part of our effort to meet the Golden Triangle of customer demand and increase the share of health & protection products. The shift of product mix takes time, and we expect to achieve a balanced product mix in the medium and long term.

5. Q: What is your view on the outlook for CI insurance in the long term?

A: Reports by consulting firms indicate a health insurance gap of 200bn yuan， which is expected to grow by 8-9% per annum between 2025 and 2030. That is also consistent with the results of our own survey. After years of development, CI insurance is a common type of product, but it needs more supply-side reform so that it can be more personalised, more compatible with customer's diverse needs, and delivered by professional sales advisors. On April 1, we launched an upgraded CI product, and have completed the first round of training. Going forward, we will strive to strengthen the selling skills of the agency force so that products sold can be more aligned with customer needs.

6. Q: In Q1, the combined ratio of your P/C insurance improved a lot. Why? Measures to control the combined ratio?

A: Main reasons for improvement: we are committed to quality, profitable business development, with solid results in risk selection, risk identification, and business mix, which ensured sound underwriting quality. In Q1, claims frequency stayed flat versus the same period of 2022. But it faced upward pressure for the whole year. That being said, the hike is manageable. Our key mitigation measures include: first, separation of management and operation, and integration of operation and customer service. In other words, we'll step up study of market trends and regulatory policies, enhance on-the-ground execution; second, we'll strengthen management of claims involving human injuries, particularly cases involving deaths or disabilities; third, we'll intensify claims cost control of NEV, through mechanisms in staffing and performance evaluation to achieve relatively satisfactory results.

7. Q: What impact do you expect from the new accounting standards on financial instruments on your asset allocation?

A: Presentation of the financial accounts would be different. But it will not impact our SAA.

8. Q: Your Q1 net investment yield fell slightly. Why? Will this impact the actuarial assumptions?

A: In Q1, net investment yield dropped by 0.2pt year-on-year, mainly due to lower yield on new fixed income investment assets in the context of interest rate decline. We evaluate the soundness of investment return assumptions every year and decide whether changes are necessary.

9. Q: The decline of solvency ratios of your life operation was much larger than that of your peers. Why? Could you give us more colour on shareholder dividend policy under the new accounting standards? What about capital planning?

A: The comprehensive solvency margin ratio of CPIC Life fell from 218% as at the end of 2022 to 199% as at the end of Q1; the core solvency margin ratio dropped from 132% to 116% during the same period. The main reason was the transitional period for C-ROSS II, which we applied for and then was granted. This led to changes in numbers from year to year. The underlying business of the company stayed the same, and its solvency position was solid.

Under the new accounting standards, net profits will go up considerably. However, solvency will be a key constraint of shareholder dividend under C-ROSS II. Therefore, our policy is to set reasonable DPS levels considering net profits, OPAT, solvency and capital needs from business development.

C-ROSS II is a more stringent set of capital rules. We are in close communication with the regulator on the issuance of perpetual bonds. We stay committed to generating stable, sustainable returns for our shareholders while ensuring compliance with regulatory solvency requirements.

10. Q: With the adoption of the new accounting standards, insurance firms chose to retrospectively adjust for I17, but not I9. But your net profit growth was slower than that of your peers. Why?

A: Under the new accounting standards, insurance companies have similar accounting treatment. Difference in net profit growth probably stemmed from different classification of financial assets measured at fair value through profit/loss. Of course, base effect also played a part.

11. Q: Under the new accounting standards on insurance contracts, underwriting financial losses in Q1 increased considerably. Why?

A: Our Q1 report shows an underwriting financial loss of 20.5bn yuan, up by 7.34bn yuan year-on-year, mainly due to an increase of 6bn yuan in life insurance underwriting financial loss. The rally of the equity market since the beginning of the year led to growth of financial assets measured at fair value, and in accordance with the new accounting standards, this needs to be matched on the liability side, hence growth of underwriting financial loss.