

Summary of Q & A of CPIC 2021 AGM

(June 2022)

1. Q: The market environment this year has become increasingly challenging, with regulatory tightening, industry structural reform and resurgence of COVID. What is management view on the company's strategic directions?

A: The world is experiencing profound changes and shifting cycles, and mankind is facing a lot of emerging challenges. Under such circumstances, it is important for insurance companies to learn useful lessons from the past and other markets, formulate business strategies based on the changing environment, ensure consistent strategy execution and strive for sustainable development.

Given the trends and dynamics of the insurance market, we will focus on 3 things: **first**, ensure reasonable profitability and liquidity from the underwriting business; **second**, asset allocation shall be compatible with profiles of liabilities and cover their cost; **third**, pursue sustainable value growth instead of short-term high returns. This would help us weather the ups and downs of economic cycles and achieve the targets of our transformation which we put forward a few years ago: best in customer experience, business quality and risk control capabilities, with industry leadership in healthy and steady development.

Looking ahead, we will stay the course, focus on things that are within our power, and continue to uphold value and long-term oriented strategies.

We know clearly where we are going in spite of increasing uncertainty: **first** is the paradigm shift away from sales orientation towards customer orientation so that CPIC Service could become our differentiating edge; **second** is pressing ahead with market-oriented reform to enhance professionalism; **third** is to pursue bold steps in deployment along emerging areas such as health care, big data and integrated regional initiatives.

2. Q: How do you think of Transformation 2.0 which you initiated a few years ago? How do you balance between mid- and long-term development objectives and short-term pressure on your business?

A: We launched Transformation 2.0 in 2017, which was a strategic and pre-emptive move the board took based on changing market environment to pave the way for high-quality development. Aiming for industry leadership in healthy and steady development, the transformation implemented a series of projects centering on talent, digitalisation, collaboration, governance and deployment. This further enhanced our capability to identify, respond to and pursue changes in the face of growing uncertainties, and as a result, the company has

become more dynamic, innovative and resilient. Such changes better injected new vitality into the long-term development of the company.

However, transformation will never be easy, and ours was a process of twists and turns, with the new replacing the old. We persisted in the long term, took a pragmatic approach starting with problem-solving, upheld customer orientation, optimised resources allocation, and focused effort in key levers such as organisational health, core business development and emerging growth opportunities, and delivered impressive results in line with our expectations. In the past 5 years, operating revenue grew from more than 300bn to 440bn; net profits nearly doubled; EV grew from less than 300bn to nearly 500bn; number of customers reached 168mn, a net growth of more than 50mn; premium income of property and casualty insurance exceeded 150bn, and that of life insurance 200bn; Group AuM increased from 1.4tr to 2.6tr, and we achieved marked improvement in intra-Group synergy, innovation and governance, and further consolidated standings on the market.

Transformation in the past 5 years not only improved our business performance, but also prepared us to cope with uncertainty and challenges down the road. Its vision and objectives, which could be summarised as “3 Mosts and 1 Leadership”, point to the direction of long-term and sustainable development. Going forward, we will continue to pursue high-quality development, deepen transformation in health

care, regional development and big data so as to promote healthy and steady development of the company.

3. Q: Your life subsidiary launched the Changhang Action Programme in an all-around way on January 1 this year. How are things going? Was the progress in line with management expectation? When can we expect improvement in KPIs like NBV?

A: In July last year, we initiated the design of Phase I of the Changhang Action Programme, which identified 8 projects in, say, distribution channels, products + service, optimisation of existing business, organisation & culture and publicity & communication. The implementation of the road-map started earlier this year. Of this, the career agent project was kicked off on Jan. 1 2022, with the launch of the amended Basic Law, seeking to build a new operational mode of the agency channel centering on professionalism, career-based development and digitalisation. Besides, we optimised the agent recruitment system, developed the NBS sales support system, upgraded the on-line platform, enhanced the training system and accelerated renovation of work-places, with interim progress in agency force quality, and the new KPIs were largely in line with our expectation.

In Q1, core manpower began to stabilise and recover, which, on a monthly average basis rose by 33.7% from the second half of 2021;

average core manpower FYC increased by 75% from the second half of 2021 and by double digits year-on-year; 13-month retention ratio for new recruits improved month by month. In channel diversification, bancassurance gained further momentum, and achieved encouraging results. In optimisation of existing business, we took a host of steps to cut costs and enhance profitability, with 13-month persistency ratio rising by 5.3pt year-on-year to 89% and the loss ratio for long-term insurance down by 5.6pt. We also made plans to drastically cut space for work-sites in the next 3 years.

That being said, no transformation can be done overnight. In spite of the interim progress, we still face formidable challenges ahead. We will strictly abide by regulatory requirements, refrain from boosting sales during the jump-start via short-term incentives or sales pitch exploiting product withdrawals. Instead, we strive for more balanced business development, and foster the new behaviours of “daily visits, weekly management and monthly planning” among agents so that they can gradually form the long-term habit of customer visits. For the whole year, given changes to domestic and international economic environment, and resurgence of COVID, there is a lot of uncertainties surrounding the trend of NBV. However, in the medium and long term, our transformation will deliver more tangible benefits, which would translate into steady improvement of KPIs like NBV.

4. Q: In Q1, the premium growth of your property and casualty insurance was 14%, with a combined ratio improving by 0.2pt year-on-year. Why? What is your guidance for the whole year?

A: The fast growth in Q1 was mainly due to strong growth momentum of both auto and non-auto business, which grew by 11.8% and 16.2% respectively. As for auto business, the high base effect from before the comprehensive reform was gone, and this, coupled with over 100% growth from NEV, led to double digit growth in Q1. Non-auto business also maintained rapid growth, mainly driven by health insurance, liability insurance and agricultural insurance, which benefited from national strategies like Rural Invigoration and Healthy China.

Improvement in profitability mainly stemmed from continuous effort in business quality control. We formulated special action programmes for key business lines, setting forth cost control objectives, upper limits on expenses, differentiated U/W and claims policies to enhance underwriting profitability. In Q1, the combined ratio improved steadily for both auto and non-auto insurance.

Going forward in 2022, though Q1 started off quite well, there is increasing uncertainty for the whole year, in particular, arising from the pandemic, as needs for insurance are dampened and credit risk worsens.

We need to make an even greater effort to maintain the momentum of

high-quality development. Under such circumstances, we will enhance market analysis, maintain the stability of existing business while keeping our eyes open for new customers, closely follow the development of risks, and continue to push for sustainable development based on our strategies.

5. Q: What progress have you made in implementing the health care strategy? Plans for next step?

A: We floated the health strategy in the second half of 2020, and since then, have made substantial progress on many fronts. With vigorous deployment in the health care eco-system, we have acquired basic capabilities in the supply of health services spanning the entire life cycle of our customers.

There was big strides in tele-medicine. Shantai Health Care Technology Company, as a specialised on-line platform of medical services, has seen rapid development, thanks to the backing of CPIC, Sequoia and Ruijin Hospital, who offered advanced market-oriented mechanisms and top-notch resources. We launched the brand of CPIC Family Doctor in September last year, which integrated resources from multiple players and improved the access to premium health care. As of May, the programme recorded income of more than 100mn, with registered users exceeding 1.8mn, which shows that its business model has stood the test

of the market. It also delivered great societal benefits. In places affected by COVID such as Xi An, Tianjin, Jilin and Shanghai, our proprietary team of medical professionals provided free consulting online 7*24, which was well received by the public.

Tele-medicine needs to be combined with physical care providers to create a closed loop. We participated in the equity investment of Guangci Memorial Hospital, which went into test run in January this year, marking an important exploratory effort to integrate high-end care and insurance to meet customers' diverse needs. We signed the agreement on strategic cooperation with New Frontier, invested in UFH and NFH to deepen our presence in health care and diversify the ecosystems. The construction of a rehab hospital has got underway, with formation of professional teams in care, investment and operation. So far the preparation is proceeding steadily.

We continuously innovated in products and services to expand coverage, increase protection and diversify offerings. On May 25, the Huhuibao for 2022 opened on-line booking of insurance applications, and met with much enthusiasm among Shanghai residents, with over 3.5mn people under coverage so far. Last year, the programme covered a total of 7.39mn people, setting the record for business of its kind in China. CPIC served as the lead underwriter and worked closely with our peers to make this happen. In 2021, a total of over 600mn was paid out in

140,000 claims, benefiting tens of thousands of families. This year, the programme was upgraded, which will offer more “peace of mind” and higher protection to Shanghai residents. For households, we launched a medical insurance product which integrates service and protection, and covers people with prior medical conditions.

Our health strategy is a long-term one, and we came up with it based on customer needs. The early stage of life and health insurance is from zero to one, and people take out their first insurance policy for “peace of mind”. But they only have a vague notion of the insurance value proposition, so they prefer endowment products. In the second stage, with raised public awareness, customers expect to use insurance to cover against morbidity risk and provide for retirement years, and so long-term CI and savings products became mainstream, and followed by rapid development of Huiminbao and the “million-yuan” medical insurance in recent years,. In the third stage, customers value service, which requires the combination of service and insurance, with lots of insurers deploying along retirement and health management services. We are now in the transition from the second to the third stage, and will seize the strategic opportunity, center on customer needs, continue to enhance supply of products and services, diversify the health care ecosystem to foster our core competitive edge.

6. Q: In the face of economic slowdown and increased equity market volatility, will you adjust your asset allocation strategy? Will your earnings for 2022 be impacted? And if so, how do you cope with it?

A: As pointed out by the Central Economic Work Meeting in the second half of 2021, China faces the triple pressure of “demand contraction, supply disruption and weaker expectations”, which was heightened further this year. We believe that the pressure on the supply side mainly stemmed from the inflation of commodities prices, especially energy, as a result of Russian-Ukraine conflict; while demand is weakened due to frequent COVID resurgences in many places of China, which led to restrictions on activities that involve people seeing each other face-to-face. This dented expectations, which resulted in economic slowdown and equity market volatility, putting pressure on investment income of the insurance industry.

In Q1, our net profits were under pressure due to the sharp decline of securities trading gains and a high base from Q1 of last year. However, given the long-term nature of our liabilities, we will not worry too much about short-term movements of investment income. As a matter of fact, we have adhered to value, long-term and prudent investing, and in a longer time horizon, have delivered leading investment performance with less volatility when compared with major listed peers.

Going forward, we will persist in the “dumb-bell shaped” Strategic Asset

Allocation (SAA) strategy, seizing opportunities to increase allocation in long-term assets such as T-bonds and local government bonds in order to lengthen asset duration and stabilise net cash inflows; and on the other hand, moderately increasing the share of equity investments and investment properties in SAA to enhance long-term returns.

We would stay cautious about exposure to the equity market in 2022. Within the SAA framework, we will control the position of equity while vigorously seizing structural opportunities. At the same time, we will continue to optimise Asset Liability Management (ALM) and enhance professional investment research capabilities so as to deliver solid investment results across economic cycles.

7. Q: Could you talk about your progress and plans in technology?

CPIC Technology was established earlier this year, and what role will it play in your overall technology planning? Given the resurgence of COVID, how did technology support your business operation?

A: The advancement in technology has been based on sound planning, which covered 5 stages since 2002. Currently we are implementing ITDP2.0, focusing on long-term capability building. In R & D, the share of independently-developed core business systems rose from less than 20% to 50% as of the end of last year; in data service, the data middle platforms have integrated data of nearly 170mn customers, with over

600 customer labels, laying a solid foundation for customer relations management and risk control, supporting multiple scenarios such as interactive robots, smart notes, reputation management and smart investment; in platform collaboration, we set up a management platform to boost synergy between individual and corporate customers; in commercialisation of innovation, we built a team of over 50 top-notch scientists, with incubation mechanisms for the ecosystem for technological innovation.

CPIC Technology, as a fully-owned subsidiary of CPIC Group, seeks to inject dynamism into the organisation through the reform of technology system, lower costs via centralised sharing of platforms and optimisation of infrastructure, and foster capabilities for independent innovations by way of deployment in frontier technologies and R&D of technology products.

We are committed to digitalisation of customer interface and operation, and have put in place diversified channels for customer interaction, such as CPIC App, WeChat, TikTok, and digital operational platforms including cloud-based shops, cloud-based distribution, Agent Online, distant double-recording, and the Fingertops Series, which support key on-line functions like product enquiry, premium calculation, insurance application and underwriting, post-sale management and claims management.

In response to the pandemic in Shanghai, we planned in advance, and arranged for professionals to stay on duty in the two data centres in Luojing and Tianlin of Shanghai to ensure their stable operation around the clock. At the same time, we scaled up equipment to better support work from home and digital operation.

8. Q: Insurance stocks including CPIC have been very weak. What is your view on this? What is the thinking behind the recent stock-buying by chairman and president?

A: Secondary-market stock prices can be a function of many factors. Since the beginning of last year, insurance stocks have been depressed, as a result of changing market conditions, such as resurgence of COVID, economic slowdown, escalation of geo-political tension and equity market sentiment, and the structural reform and reshaping of value growth dynamics of the insurance sector. CPIC's valuation is at historic lows measured by the EV multiples, which was only 0.4 for A-share and 0.3 for H-share in 2021.

Management attaches great importance to stock price performance, and is working on ways to resolve the undervaluation. **First**, we will continue to enhance the fundamentals of business performance, which, in the long term, is the basis of stock performance. Transformation in the past 5 years has laid a solid foundation for high-quality development, and going

forward, we will ensure consistency in strategies, focus on the long term, deepen transformation and innovation to improve fundamentals and enhance investor confidence. **Second**, we will step up investor communication, and continuously improve transparency so that the capital market can better understand our story. At the same time, we will make a greater effort and look at various options, where laws and regulations allow, to shore up market valuation so that it can better reflect the intrinsic value of the company.

Recently, management both at the Group and from the major subsidiaries increased holdings of the company's shares, given the historic low valuation of the company. This also testifies to the confidence of management of the fundamentals and long-term growth prospects of the company. We believe that China's long-term economic prospects remain robust, the long-term prospects of the insurance industry remain intact, and CPIC will adhere to high-quality development. We will forge ahead with transformation of core businesses, promote deployment along health care, retirement and technology, improve strategies for integrated regional development, optimise long-term incentive system, which, in time, will enhance our business fundamentals and boost long-term and healthy development.