



# 2016 Corporate Day

2016.12.2 Shen Zhen

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**Industry Development Trend**

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**Company's Development Outlook for the Future  
Five-year Period**

**3**

**Company's Strategy for 2017**

**Major economic entities in the world are experiencing slow recovery while Chinese economy is at a new normal phase characterized with structural adjustment and steady growth**

## Economic Growth Slowing Down

- **Medium-to-low growth rate with L-shape trend**
- **Development mode transforming gradually with structural reform and intensifying structural reform as the top priorities**

## Interest Rate Falling

- **Low interest rate environment expected**
- **Robust fiscal policy, prudent and loose monetary policy**
- **Real economy development stimulated by policy tools including interest rate and reserve ratio cuts, exchange rate depreciation, etc.**

# Low Yield for Life Industry

Under the new normal economy, life industry will gradually step into a low-yield period. Multiple risks will emerge in this transition process

High-yield and high-pricing rate

Relatively low risk  
(Proved by life industrial  
development in China)

Transformation Period

Multiple Risks Overlapping

Low-yield and low-pricing rate

Relatively low risk  
(Proved by Japanese and  
European life industry)

The length of the transformation period  
depends on asset duration

- Both asset and liability sides under pressure, in a dilemma
- Challenges for traditional profit model mainly driven by interest rate spread

## Liability

- Stop selling wealth management products – cash flow risk
- Keep on selling wealth management products – yield gradually falling down, leading to interest loss risk

Solvency

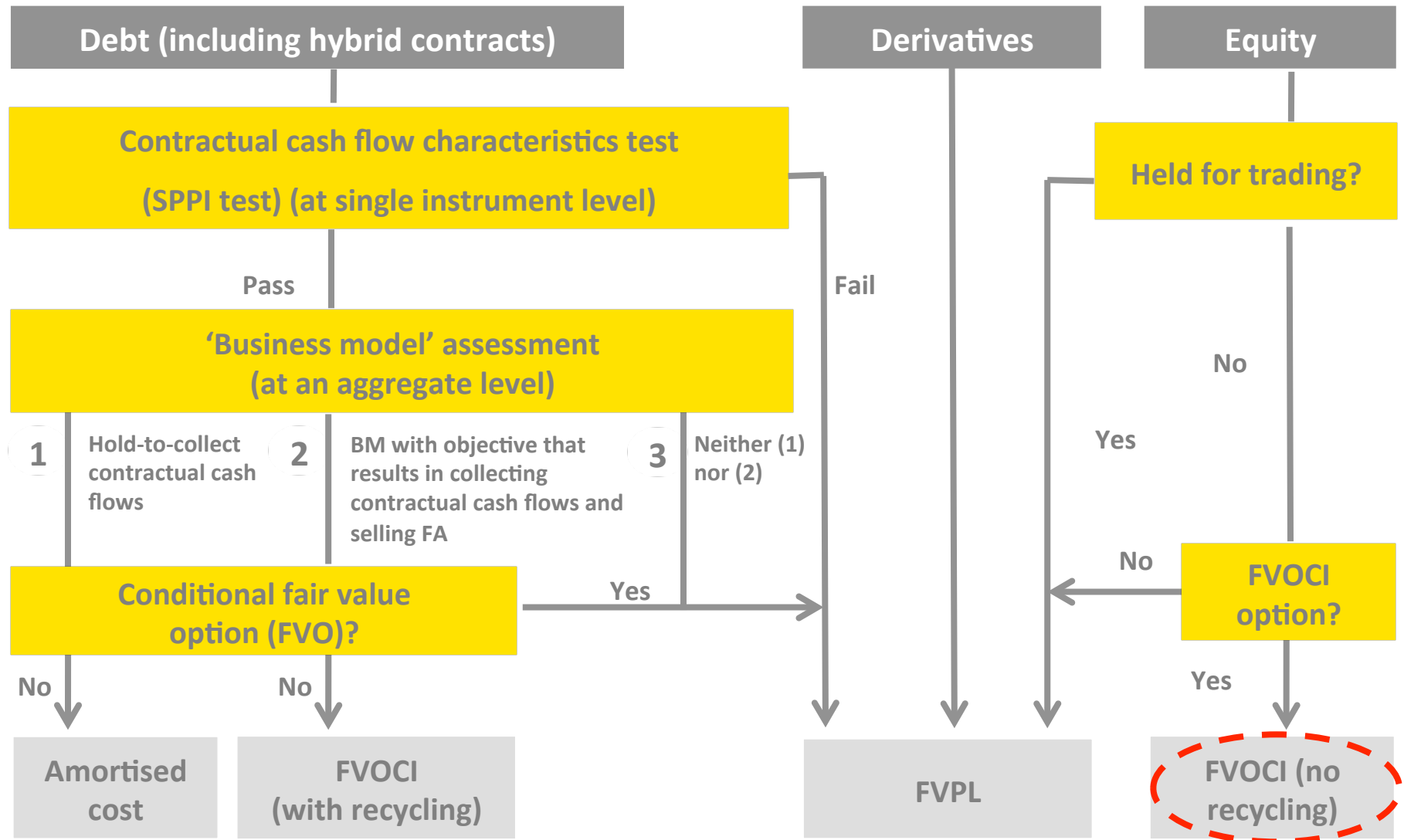
Risk

## Asset

- Lack of projects with high yield and low risk makes high return hard to achieve
- Uncertainty in investment yield due to debt credit risk, asset-liability mismatch, high capital market volatility, falling interest rate and other risks

# Significant Changes in Accounting Standards

## — Financial Instruments

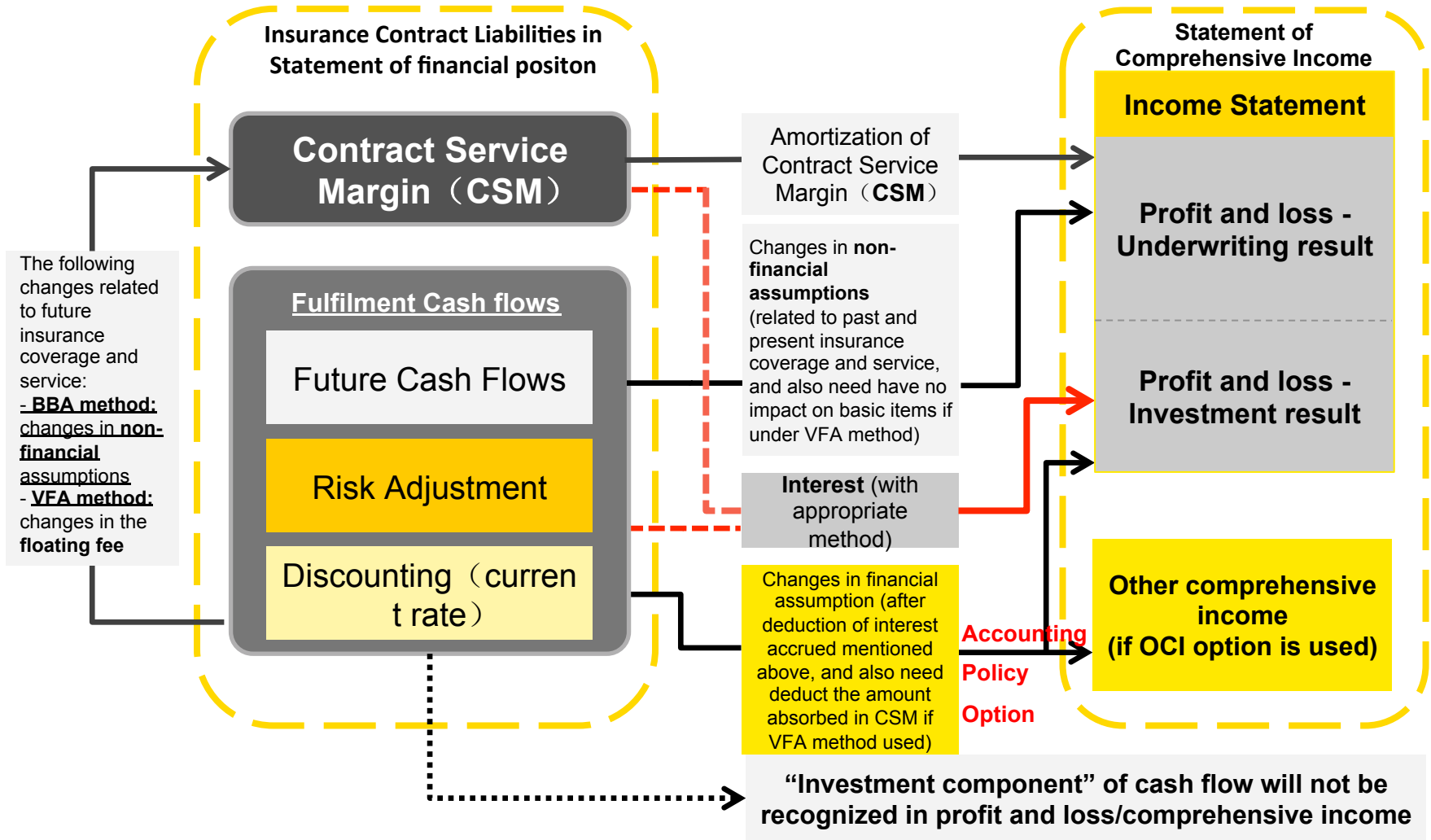


- The classification and measurement of financial assets will change from 4 categories to 3 categories. This change will highlight the impact on the Company resulted from the management pattern and feature of the financial assets held
- With the downturn of market interest rate, most of life insurance companies increased equity investment. Different business model or investment strategy chosen may lead to different impact on both value and volatility in net profit and other comprehensive income(OCI)
- The introduction of expected credit loss model set higher requirement on the quality of debt investment assets and the Company's ability when judging credit risk of all terms



# Significant Changes in Accounting Standards

## — Financial Instruments



- The income statement will be significantly changed. Definition of major line items will change substantively, and most of operating results performance will reflect in OCI
- Measurement of insurance contract liabilities will be significantly changed, which has material impact on valuation models and valuation methods of insurance contract liabilities
- The relevance and complexity of accounting standards on financial instruments and insurance contracts will increase, which lead to higher requirement on ALM. Life insurance companies should pay more attention to business strategy and long-term risk

- CIRC stressing protection as the essence
- Tightening regulations on both asset and liability sides by issuing a series of regulatory policies
- Reinforcing structural reform on supply side

No.	Policy	Contents
CIRC (2016) No. 22	<i>Notice on Regulating Medium and Short Term Life Insurance Products by CIRC</i>	First official documents regulating medium and short term products
CIRC Life (2016) No. 199	<i>Notice on Strengthening Regulations on Life Insurance Products by CIRC</i>	Reinforcing limitations on medium and short term products sales
CIRC (2016) No. 76	<i>Notice on Reinforcing Regulations on Actuarial System of Life Insurance by CIRC</i>	
CIRC Fund (2016) No.104	<i>Notice on Strengthening Regulations on Package-type Insurance Asset Management Products by CIRC</i>	Preventing systemic risk caused by overinvestment by stressing 8 prohibited situations
CIRC (2016) No.10	<i>Notice on Implementing Chinese Risk-Oriented Solvency System by CIRC</i>	Ending the “2 parallel track” transition period and switching to C-ROSS officially
	<i>Decision on Amendment of Provisional Rules on Insurance Asset Management (Draft for Comments)</i>	Broadening investment channels and incorporating insurance asset management into national strategy

*The 13th Five-year Plan of China's Insurance Industry Development* requires the industry to actively participate in constructing the commercial insurance into an important pillar of the social security system

## Expand Multi-level Pension Service

- **Develop commercial pension insurance related to the enterprise / occupational pension**
- **Launch tax deferred commercial pension insurance**
- **Support participation in pension insurance agency business and comprehensive reform on the aged service industry**

## Develop Diversified Health Insurance

- **Develop commercial health insurance related to primary medical insurance**
- **Fully launch tax benefit commercial health insurance**
- **Encourage the development of various commercial nursing insurance and health service**
- **More participation in medical insurance agency business**

## Less contribution from wealth management type products

- **Wealth management products lose competitive edge**
- **Medium and short term business shrink under the policy guidance**

## Sustainable development with protection essence as the main focus

- **Focus on value rather than scale**
- **Focus on long-term development rather than short-term growth**
- **Focus on protection essence rather than investment return**

## Pension and health insurance leading the market gradually

- **Protection type products including pension, medical, health, general life and accident insurance leading the market**
- **Tremendous potential for commercial or policy medical and pension insurance as a supplement to the social security**

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Company's Strategy for 2017

The company aims to become China's best financial service group with all-rounded life insurance business as the core in the future

## The Best in China

- Continuous value growth, outstanding customer service, leading market position, dedicated and professional team, lean and efficient management, well-known brand and cohesive culture

## Comprehensive Life Insurance Business

- Life insurance industry chain covering various needs throughout customer life span
- Meet customer needs for protection, health, elderly care and etc. and fully exploit the advantage of life insurance

## Financial Service Group

- Two pillars: life insurance business and asset management
- Expand to other financial service sectors including banking, securities, funds and leasing at appropriate time

## Strong NCI

- Strong overall capacity, steady premiums growth
- Strong competitive force, noticeable improvement of competitiveness in agent channel and in large and medium sized cities
- Strong team, stable team size and ever-improving skills
- Strong operational capacity of subsidiaries, better operation results and synergy effect

## High Value NCI

- Higher operational value, stable increase in net assets and first year NBV, above average comprehensive investment yield, continuous optimization of profit sources
- Increasing value of serving society and clients, higher quantity and quality of clients, and leading position in service efficiency, client satisfaction and net promoter score

## Sustainable NCI

- Business structure optimization, primary establishment of the regular-premium-driven development model
- Effective and strict internal control, no systematic or regional risk
- Effective operational risk control, appropriate solvency capacity all the time

## Harmonious NCI

- Staff and sales team, proper structure, high quality and strong motivation
- Higher reputation and awareness for the brand of NCI

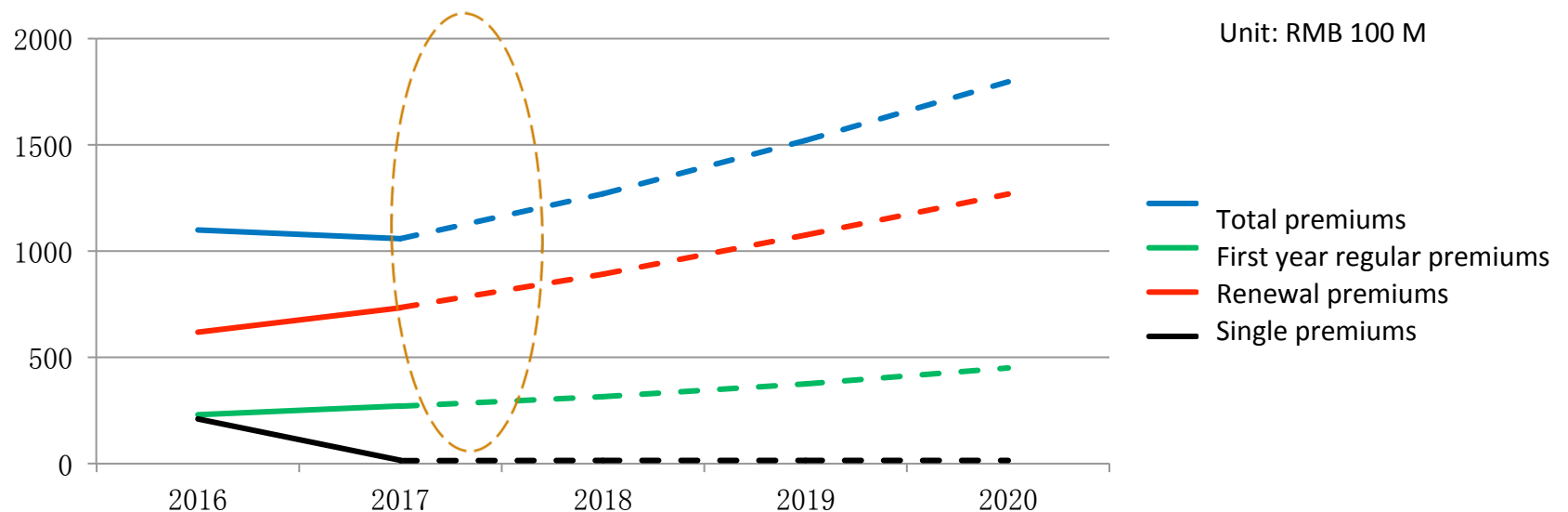


## Transformation Period (2016-2017)

- Gradually replace the single premiums with regular and renewal premiums; scale expansion may slow down
- Initially establish a business development model driven by regular and renewal premiums

## Harvest Period (2018-2020)

- Fully establish the regular-premium-driven development model
- Focus on long-term regular premium business and intensify business restructuring



## Transformation & Development

- Transform the development model from single-premium-driven to regular-premium-driven

## Independent Operation

- Strengthen branch operational ability, achieve balance between incomes and outcomes and create higher value and profit

## Technical Support

- Reinforce IT system construction so as to effectively support sales, operation and management

## Efficient Service

- Promote service efficiency, achieve quick settlement of claims and quick payment as well as good reputation by optimizing claims settlement process and improve customer service experience

## Risk Prevention

- Strengthen internal control system construction with the focus on preventing such risks as cash flow, interest loss and asset/liability mismatch

**1. Facilitate Continuous and Rapid Business Development**

**2. Practically Strengthen Team Building**

**3. Effectively Strengthen IT Support Capacity**

**4. Improve Customer Service Level**

**5. Optimize Comprehensive Management System**

**6. Reinforce Construction of Investment Capability System**

**7. Continuously Strengthen Risk Control**

## ◆ Facilitate Continuous and Rapid Business Development

### Innovate Products

- Continue to research and develop market-leading products, and cultivate branded products of NCI
- Implement differentiated products strategy

### Strengthen Regular Premium Business

- Employ policies to guide business structure adjustment centering on value
- Integrate different channels to fully develop regular premium business

### Develop Urban Market

- Focus on large and medium sized cities business, especially in the urban areas
- Strengthen policy support and promote town branches development

### Cultivate New Business

- Pay close attention to new business opportunities such as the tax deferred pension insurance
- Push forward breakthrough in the development of policy-oriented business and accumulate customer resource

## ◆ Practically Strengthen Team Building

### Build a Professional Staff Team

- Establish scientific and standard market-oriented human resource management mechanism , and incentive and restraint mechanism
- Implement professional managers and professional technicians training systems

### Build a *Two-High* Sales Team

- Vigorously foster new agent manager and implement the strategy of achieving “stability of high and middle management and moderate mobility of low-level agents” ;
- Effectively promote the effective agents platform by improving activity ratio; and improve productivity by increasing premium per policy and the sum of policies, so as to build a team with high performance and productivity.

## ◆ Effectively Strengthen IT Capacity

### Improve Supporting Capacity

- Consolidate technical foundation
- Provide solutions for the existing and future business

### Enhance Analysis Ability

- Enhance information level
- Upgrade the management and decision-making support level

### Build Competitive Edge

- Establish cloud computing and big data platform
- Strengthen mobile Internet application

## ◆ Improve Customer Service Level

### Strengthen Service Support

- Emphasize post-sales service to policyholders
- Strengthen service support to agents

### Enrich Service Content

- Improve basic service quality with efficiency as the focus
- Provide exquisite value-added service with emphasis on quality rather than quantity

### Improve Service Platform

- Customer information platform
- Customer analysis platform
- Sales service platform

## ◆ Optimize Comprehensive Management System

### Financial Management

- Establish budget-centered management model and enhance branches' independent operation capability

### Human Resource Management

- Improve the construction of management system, coordinate employee management, performance management and incentive remuneration system

- Fully develop education and training, and rebuild a top-down and effective training system

- Improve professional level in operation management, and build modernized operation management system by optimizing service and focusing on efficiency

### Education and Training Management

### Operation Management





## ◆ Reinforce Construction of Investment Capability System

### Improve and Enrich Asset Management Model

- Entrusted investment and direct investment combine together; internal entrustment and market entrustment complement each other

### Explore Multi-dimensional Asset Allocation System

- Explore multi-dimensional matrix asset allocation system, and attain both appropriate yield and satisfactory asset quality

### Optimize Asset Liability Management Mechanism

- Improve management organization structure
- Enhance cooperation among strategic planning, products development, sales, actuarial business practice and investment

## ◆ Continuously Promote Risk Prevention

### Adhere to Compliant and Legal Operation

- Intensify policy establishment and carry out stringent implementation
- Enhance process management and realize standard management of the whole process
- Improve accountability system and strengthen responsibility

### Improve a Sound Risk Prevention Mechanism

- Establish risk-oriented Solvency II risk management structure
- Complete risk management system

### Enhance Solvency Management

- Construct dynamic solvency monitoring system, effective transmission system and problems warning system

### Prevent Risks in Key Areas

- Strictly prevent risks in key or special areas according to the classification between headquarter and branches

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Five-year Period

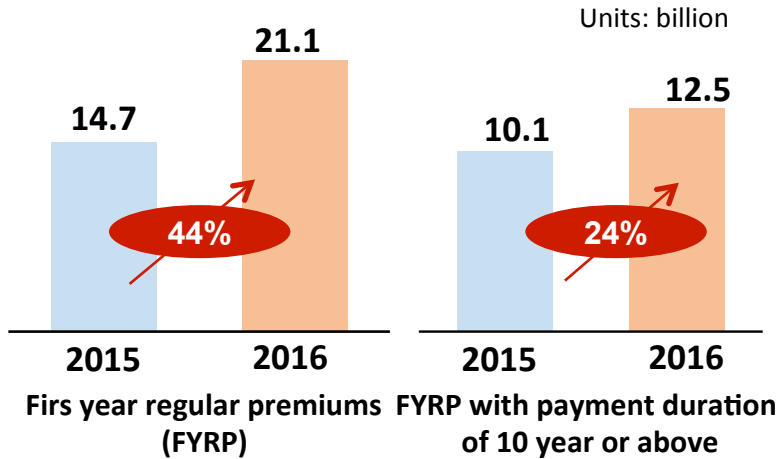


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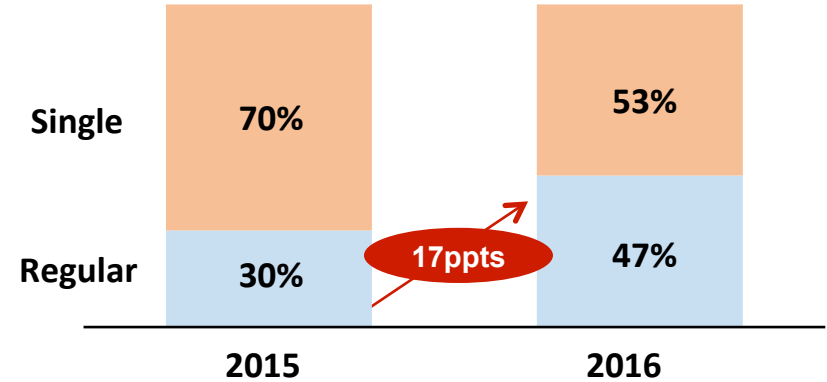
Company's Strategy for 2017

# Achievements in Early Stage of Transformation

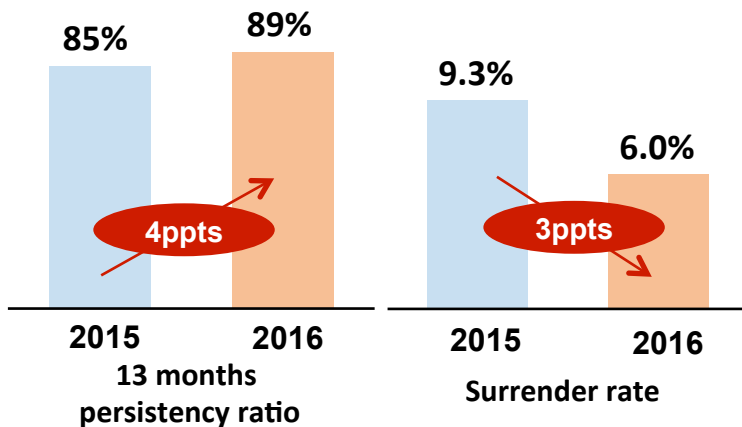
## Increased Regular Premiums



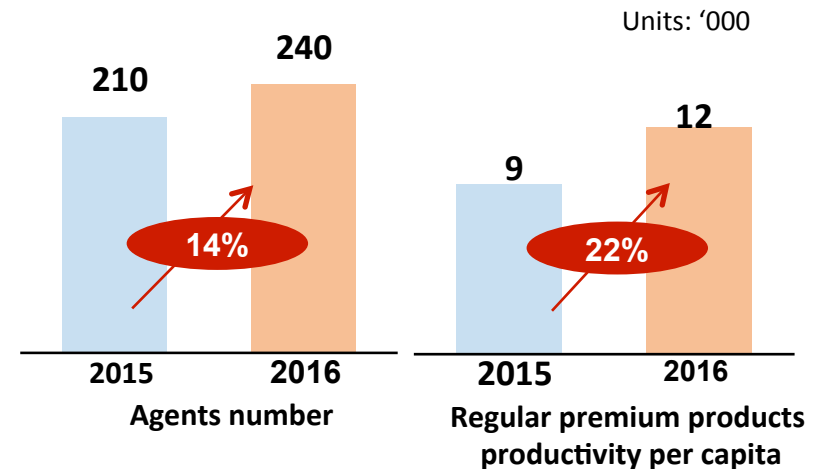
## Optimized Structure



## Improved Quality



## Improved Performance



Note: The data are calculated according to old policy as of October 31, 2016 and in the same period last year

Considering the inner and outside environment, the Company will adhere to the principle of “stabilizing scale, enhancing value, optimizing structure and controlling risks”, further promote transformation, and enhance independent operation for the achievement of all business objectives.

## Stabilizing scale

- Maintain a certain scale to stabilize business operation
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## Enhancing value

- Focus on long-term protection-type business to promote steady enhancement of value
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## Optimizing structure

- Business structure: continue to improve the proportion of FYRP in new business premiums, FYP from regular products with payment duration of 10 years or above in total FYP, renewal premiums in total premiums, and protection type products in new business
  - Fees structure: reasonably control the proportion of operational expenditure and fixed fees
  - Profit structure: stabilize interest spread gain and increase mortality surplus
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## Controlling risks

- Reduce surrender rate
- Stabilize cash flow
- Prevent interest spread loss risks

## Assessment Policy

- **Sales KPI: focus on regular business and value, and emphasize business structure optimization**
- **Operational KPI: focus on cost control rate, renewal premiums collection rate and surrender rate**
- **Adjustment subjects: credit deduction for noncompliance behavior and credit awards for policy-oriented business development**

## Financial Policy

- **Support business development: allocate resources into main long-term regular premium products**
- **Strengthen independent operation ability: link performance assessment results with profit earning abilities and assessment policies; improve independent operation capacity of branches**
- **More resources for the sales force: invest all incomes from first year's premiums in 3rd and 4th tier sub-branches to achieve incentive effects**

## Incentive Policy

- **Remuneration policy: salary with basic level guarantee and no ceiling limits**
- **Performance bonus policy: linkage with the sales results where hard work is rewarded**

# Q & A