Ping An Life’s Value
Inside Out

Jason Yao
December 9
Important Notes

Forward-looking Statements
To the extent any statements made in this presentation containing information that is not historical are essentially forward-looking. These forward-looking statements include but are not limited to projections, targets, estimates and business plans that the Company expects or anticipates will or may occur in the future. These forward-looking statements are subject to known and unknown risks and uncertainties that may be general or specific. Certain statements, such as those including the words or phrases "potential", "estimates", "expects", "anticipates", "objective", "intends", "plans", "believes", "will", "may", "should", and similar expressions or variations on such expressions may be considered forward-looking statements.

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Disclosure Notes
EV = Embedded Value; NBEV = New Business Embedded Value
All disclosures on EV and NBEV include Ping An Life, Ping An Annuity and Ping An Health
All other figures cover Ping An Life only
All 2016HY NBEV are based on the new business generated over 12 months preceding June 30, 2016
Robust Business Growth

**Assets**
- 2011: 847,954
- 2015: 1,632,254

**EV**
- 2011: 144,400
- 2015: 326,814

**Net profit attributable to shareholders of the parent company**
- 2011: 10,628
- 2015: 20,699

**NBEV**
- 2011: 16,822
- 2015: 30,838

Highlight

Note: (1) Assets and net profit attributable to shareholders of the parent are on a consolidated basis of Ping An Life, while EV and NBEV are from Ping An Life's business results. (2) "Ping An Life" herein excludes the business of Ping An Annuity and Ping An Health (the same on following pages). (3) "Life insurance business" herein includes the operations of Ping An Life, Ping An Annuity and Ping An Health (the same on following pages).
Main Concerns on Ping An Life

1. Will lasting low interest rate environment significantly impair its profitability?

2. Are EV assumptions prudent and reasonable?

3. How does C-ROSS affect the company's solvency and EV?

4. Is Ping An Life steady growth sustainable during the economic downturn?
3 Key Indicators on life Insurers’ Value Analysis

Value of Life Insurance

- **EV + NBEV**
  - Reflect a policy's long-term attributes and capital cost
  - Structure and growth of potential new business
  - Complex model; Verify the soundness of assumptions

Current-year profit
- **Stable profits emerged from existing policies**
- **Fluctuation due to capital market**

Solvency
- **C-ROSS reflects risk exposures**
- **Protection products are more favorably treated under C-ROSS**
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I. Basic Concept

II. High Quality Embedded Value

III. Sustainable Profitability

IV. Resilient Solvency Position
Linkage among the 3 Indicators

- EV is based on **solvency-adjusted distributable profits**, rather than on simple discounting of accounting profits.
- Solvency-based adjustments **changed the timing of profit emergence**, although total amount of profits remain unchanged.
- In general, the more profitable an insurance policy is, the higher its EV will be.

**Illustration of a Newly-Issued Life Insurance Policy**

1. Accounting Profits
2. Solvency-Adjusted Distributable Profits
3. Discount and sum
4. NBEV
5. Aggregation of all the historical business to date
6. EV
Residual Margin: Stable Long-term Future Profit to Emerge

Take the sale of a long-term policy for example:

- At issuance, a profitable policy generated **residual margin** - the discounted value of its expected future profits
  
  \[ \text{Residual margin} = \text{discounted value of total premiums} - \text{discounted value of total expenses and claims} \]

- In line with the prudence principle, the surplus of premiums over expenses and claims, i.e. residual margin cannot be recognized as one-off profit when a new policy is issued. Instead, The amortization of the residual margin, **with its pattern locked when a new policy is issued**, is a major source of accounting profit

- Residual margin is a major source of the accounting profit (other factors include changes in best estimates, investment deviation and so on)

When a new policy is issued

- **Discounted value of premiums**
- **Discounted value of expenses and claims**
- **Residual margin amortized as accounting profit**

\[ \text{Y1} \quad \text{Y2} \quad \text{Y3} \quad \text{Y4} \quad \text{Y5} \]
Residual Margin: a Major Source of Solvency Capital

- Residual margin, per PRC GAAP, is classified as liabilities instead of net assets
- Residual margin, under C-ROSS, is recognized as actual capital
- Profitable new business, with sizable amount of residual margin, is a major contributor of the solvency capital under C-ROSS

Note: (1) Assets as per accounting standards and assets under C-ROSS are slightly different. We ignored such difference in above for simplicity.
(2) Apart from insurance liabilities, Ping An Life has other liabilities, which were ignored in above for simplicity.
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Embedded Value: a Better Reflection of Long-term Value

Life Insurance Value

= Adjusted Net Asset

Value of In-force Business (VIF)

+ Value of Future New Business

Year 1 NBEV
Year 2 NBEV
Year 3 NBEV
... Year n NBEV
Rapid Growth in EV and NBEV

(in million RMB)

Note: (1) A decline in EV in 2008 mainly resulted from Ageas investment loss and the overall stock market slump.
(2) EV and NBEV above are the valuation per Solvency I.
**Significant EV Growth**

- Expected return and value of new business are the two main contributors of EV growth.
- Positive deviations reflect better-than-expected investment and operating results.

<table>
<thead>
<tr>
<th>(in million RMB)</th>
<th>EV as of 2006 year-end</th>
<th>Expected return</th>
<th>Value of new business</th>
<th>Investment deviation</th>
<th>Operating and other deviations</th>
<th>Others</th>
<th>EV as of 2015 year-end</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>38,347</td>
<td>113,899</td>
<td>151,722</td>
<td>16,523</td>
<td>2,760</td>
<td>3,562</td>
<td>326,814</td>
</tr>
</tbody>
</table>

Note: EV shown above are calculated per Solvency I.
Protection Business Contributes 70% of NBEV

NBEV Mix as of 2016HY

- Long-term protection, 70.0%
- Saving (long-PPP), 6.6%
- Saving (short-PPP), 11.0%
- Short-term, 2.8%
- Telemarketing & Internet channel, 8.2%
- Group channel, 0.7%
- Bank channel, 0.7%
- Agency, 90.4%

% of FYP attributed to Long-Term Protection Products by Agency Channel

- 2011: 42%
- 2012: 45%
- 2013: 46%
- 2014: 50%
- 2015: 51%

Note: (1) PPP stands for premium payment period.
(2) The chart on the left above are based on EV under C-ROSS.
(3) Long-term protection products cover whole-life, term, critical illness, and accident insurance. Saving products (short-PPP) cover endowment and annuity products with payment-term below 10 years, while saving products (long-PPP) are those with payment-term of 10 years and above.
Long-Term Protection Products are Less Dependent on Interest Margin

Distributable Profit of Typical Long-Term Protection Products - per RMB 1000 FYP

Distributable Profit of Typical Saving Products (short-PPP) - per RMB 1000 FYP

Interest Margin Related Assumptions
- Investment Return

Assumptions Impacting Other Margins
- Lapse
- Expense
- Mortality and Morbidity

Discounting Related Assumptions
- Risk Discount Rate (RDR)
Past 10-yr Performance of Ping An Insurance Funds Exceeds 5.5% & Investment Assumptions will be Reviewed at the Year End

<table>
<thead>
<tr>
<th>Year</th>
<th>Financial NII</th>
<th>Financial TII</th>
<th>Fair-value-based TII</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>4.6%</td>
<td>8.3%</td>
<td>13.2%</td>
</tr>
<tr>
<td>2007</td>
<td>4.5%</td>
<td>14.1%</td>
<td>23.1%</td>
</tr>
<tr>
<td>2008</td>
<td>4.1%</td>
<td>-1.7%</td>
<td>-8.5%</td>
</tr>
<tr>
<td>2009</td>
<td>3.9%</td>
<td>6.4%</td>
<td>8.3%</td>
</tr>
<tr>
<td>2010</td>
<td>4.2%</td>
<td>4.9%</td>
<td>4.0%</td>
</tr>
<tr>
<td>2011</td>
<td>4.5%</td>
<td>4.0%</td>
<td>1.5%</td>
</tr>
<tr>
<td>2012</td>
<td>4.7%</td>
<td>2.9%</td>
<td>5.2%</td>
</tr>
<tr>
<td>2013</td>
<td>5.1%</td>
<td>5.1%</td>
<td>4.5%</td>
</tr>
<tr>
<td>2014</td>
<td>5.3%</td>
<td>5.1%</td>
<td>8.9%</td>
</tr>
<tr>
<td>2015</td>
<td>5.8%</td>
<td>7.8%</td>
<td>7.8%</td>
</tr>
<tr>
<td>10-Year Average</td>
<td>4.7%</td>
<td>5.6%</td>
<td>6.5%</td>
</tr>
</tbody>
</table>

Note: Ping An Insurance funds include Ping An Life, Ping An Property & Casualty, Ping An Annuity and Ping An Health’s fund.
## NBEV Less Sensitive to Investment Assumptions & High Proportion of Long-Term Protection Products

<table>
<thead>
<tr>
<th>in million RMB</th>
<th>NBEV</th>
<th>Return -50bp</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agency</td>
<td>42,580</td>
<td>39,419</td>
<td>-7.4%</td>
</tr>
<tr>
<td>Long-Term Protection</td>
<td>32,967</td>
<td>31,086</td>
<td>-5.7%</td>
</tr>
<tr>
<td>Saving (short-PPP)</td>
<td>5,191</td>
<td>4,486</td>
<td>-13.6%</td>
</tr>
<tr>
<td>Saving (long-PPP)</td>
<td>3,122</td>
<td>2,578</td>
<td>-17.4%</td>
</tr>
<tr>
<td>Short-term</td>
<td>1,300</td>
<td>1,269</td>
<td>-2.4%</td>
</tr>
<tr>
<td>Non-Agency</td>
<td>4,545</td>
<td>3,497</td>
<td>-23.1%</td>
</tr>
<tr>
<td>Total</td>
<td>47,125</td>
<td>42,915</td>
<td>-8.9%</td>
</tr>
</tbody>
</table>

Note: (1) NBEV figures on this page are based on 2016HY results under C-ROSS.
(2) Figures may not match totals due to rounding.
Prudent Risk Discount Rate Assumptions

Risk Premium of Life Insurance

<table>
<thead>
<tr>
<th>Year</th>
<th>Risk Discount Rate (RDR)</th>
<th>Yield of 10-year central government bond</th>
<th>Risk Premium</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>12%</td>
<td>3.1%</td>
<td>8.9%</td>
</tr>
<tr>
<td>2007</td>
<td>11.5%</td>
<td>4.5%</td>
<td>7.0%</td>
</tr>
<tr>
<td>2008</td>
<td>11.5%</td>
<td>2.9%</td>
<td>8.6%</td>
</tr>
<tr>
<td>2009</td>
<td>11%</td>
<td>3.8%</td>
<td>7.2%</td>
</tr>
<tr>
<td>2010</td>
<td>11%</td>
<td>4.0%</td>
<td>7.0%</td>
</tr>
<tr>
<td>2011</td>
<td>11%</td>
<td>3.5%</td>
<td>7.5%</td>
</tr>
<tr>
<td>2012</td>
<td>11%</td>
<td>3.6%</td>
<td>7.4%</td>
</tr>
<tr>
<td>2013</td>
<td>11%</td>
<td>4.6%</td>
<td>6.4%</td>
</tr>
<tr>
<td>2014</td>
<td>11%</td>
<td>3.7%</td>
<td>7.3%</td>
</tr>
<tr>
<td>2015</td>
<td>11%</td>
<td>2.9%</td>
<td>8.2%</td>
</tr>
<tr>
<td>10-year average</td>
<td>-</td>
<td>-</td>
<td>7.6%</td>
</tr>
</tbody>
</table>

As per CAPM formula:

\[ R = r_f + \beta \times MRP \]

Risk discount rate (RDR) is the sum of risk-free interest rate and risk premium.

Note: (1) Yields of 10-year central government bond above are data by the end of each year.
(2) Risk premium = RDR (Risk Discount Rate) - yield of the 10-year government bond
(3) Figures may not match totals due to rounding.
## Sensitivity to Investment Return & RDR

### Value of In-force:

<table>
<thead>
<tr>
<th>in million RMB</th>
<th>RDR 11%</th>
<th>RDR 10.5%</th>
<th>RDR 10%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Base</td>
<td>237,340</td>
<td>247,375</td>
<td>258,315</td>
</tr>
<tr>
<td>Return -50bp</td>
<td>206,681</td>
<td>215,113</td>
<td>224,300</td>
</tr>
<tr>
<td>Return -100bp</td>
<td>174,761</td>
<td>181,554</td>
<td>188,948</td>
</tr>
</tbody>
</table>

### 2016HY NBEV:

<table>
<thead>
<tr>
<th>in million RMB</th>
<th>RDR 11%</th>
<th>RDR 10.5%</th>
<th>RDR 10%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Base</td>
<td>47,125</td>
<td>49,770</td>
<td>52,624</td>
</tr>
<tr>
<td>Return -50bp</td>
<td>42,915</td>
<td>45,304</td>
<td>47,875</td>
</tr>
<tr>
<td>Return -100bp</td>
<td>38,606</td>
<td>40,733</td>
<td>43,018</td>
</tr>
</tbody>
</table>

Note: (1) Figures on this page are calculated under C-ROSS as of June 30, 2016.
(2) Base rate of investment return assumptions are 4.75%/5%/5.25%/5.5%+ in year 1/2/3/4+
Prudence are Embedded Long Term Morbidity Assumptions

Note: (1) The chart above shows the morbidity rate of females aged 40 (stand-alone dread disease).
(2) "Industry survey" is based on the morbidity table published by the Insurance Association of China.
# Long-Term Protection Products: Main Reason of the NBEV Increase under C-ROSS

<table>
<thead>
<tr>
<th>in million RMB</th>
<th>NBEV per Solvency I</th>
<th>NBEV per C-ROSS</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agency</td>
<td>33,857</td>
<td>42,580</td>
<td>25.8%</td>
</tr>
<tr>
<td>Long-term protection</td>
<td>24,074</td>
<td>32,967</td>
<td>36.9%</td>
</tr>
<tr>
<td>Saving (short-PPP)</td>
<td>5,326</td>
<td>5,191</td>
<td>-2.5%</td>
</tr>
<tr>
<td>Saving (long-PPP)</td>
<td>3,179</td>
<td>3,122</td>
<td>-1.8%</td>
</tr>
<tr>
<td>Short-term</td>
<td>1,279</td>
<td>1,300</td>
<td>1.7%</td>
</tr>
<tr>
<td>Non-agency</td>
<td>4,173</td>
<td>4,545</td>
<td>8.9%</td>
</tr>
<tr>
<td>Total</td>
<td>38,030</td>
<td>47,125</td>
<td>23.9%</td>
</tr>
</tbody>
</table>

Note: (1) NBEV figures on this page are based on 2016HY results under C-ROSS.
(2) Figures may not match totals due to rounding.
Higher NBEV under C-ROSS due to Earlier Release of Profit

![bar chart showing undiscounted distributable profit under Solvency I and C-ROSS]

<table>
<thead>
<tr>
<th></th>
<th>Undiscounted distributable profit under Solvency I</th>
<th>Undiscounted distributable profit under C-ROSS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-5y</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6-10y</td>
<td></td>
<td></td>
</tr>
<tr>
<td>11-15y</td>
<td></td>
<td></td>
</tr>
<tr>
<td>16-20y</td>
<td></td>
<td></td>
</tr>
<tr>
<td>21-25y</td>
<td></td>
<td></td>
</tr>
<tr>
<td>26-30y</td>
<td></td>
<td></td>
</tr>
<tr>
<td>30y+</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>EV per Solvency I</th>
<th>EV per C-ROSS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Cash Flows</td>
<td>Same</td>
<td></td>
</tr>
<tr>
<td>Liabilities and Required Capital</td>
<td>Volume-based, simple calculation</td>
<td>Risk-oriented, different by product</td>
</tr>
<tr>
<td>1st Year New Business Strain</td>
<td>Large</td>
<td>Relatively small</td>
</tr>
</tbody>
</table>

Note: Above distributable profit pattern is an illustration based on results as of 2016HY
**Ping An Life’s High Quality EV**

<table>
<thead>
<tr>
<th>Sound Product Mix</th>
<th>High proportion of long-term protection business (70% of NBEV)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less Affected by Low Interest</td>
<td>Low sensitivity on investment assumption</td>
</tr>
<tr>
<td>Prudent Assumptions</td>
<td>Prudent actuarial assumptions</td>
</tr>
<tr>
<td>Positive Impact of C-ROSS</td>
<td>NBEV improved markedly due to sound product mix</td>
</tr>
</tbody>
</table>
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Residual Margin: Core & Stable Source of Future Profit

Accounting Profit of Life Insurer:

- **Residual Margin Release**
  - A major source of accounting profit, stable release year by year, immune to capital market fluctuation
  - Long-term protection business generated large residual margin
  - Best indicator to project long-term profit of life insurance

- **Investment Return Deviation**
  - Capital market fluctuations. Short-term impact
  - Reflect investment strategies

- **Operating Deviation**
  - Reflect the operating efficiency
  - Include deviation of fees, surrender and claims and so on

- **Changes in Accounting Estimates**
  - Include changes in the discount rate of liabilities and other assumptions
Amortization Pattern of Residual Margin is Locked in & Long-Term Protection Products Generate Large Residual Margin

What’s Residual Margin?

When a new policy is issued

Discounted Value of Premiums

Discounted Value of Expenses and Claims

Residual Margin

Amortization Pattern of Residual Margin - based on the same FYP

• As of June 30, 2016, Ping An Life’s total residual margin is RMB386.3bn
Steady Growth of Residual Margin Amortization &
Steady Increase of Long-Term Protection Business

Residual Margin Amortization of Ping An Life over the past 5 years

<table>
<thead>
<tr>
<th>Year</th>
<th>Others</th>
<th>Long-term protection</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>13,400</td>
<td>52%</td>
</tr>
<tr>
<td>2012</td>
<td>15,865</td>
<td>52% +18%</td>
</tr>
<tr>
<td>2013</td>
<td>18,710</td>
<td>54% +18%</td>
</tr>
<tr>
<td>2014</td>
<td>22,519</td>
<td>58% +20%</td>
</tr>
<tr>
<td>2015</td>
<td>29,267</td>
<td>63% +30%</td>
</tr>
</tbody>
</table>

Note: The above are residual margins before income tax.
Sustainable Future Profit of Ping An Life

Residual margin is the major source of future profit

- Accounting profit is recognized through the amortization of residual margin
- The release pattern of residual margin is locked in when a new policy is issued

In-force business is still contributing profit through residual margin amortization

- The balance of residual margin of existing business reaches RMB386.3bn.

Residual margin amortization is gradually increasing over years

- The annual increase averaged 22% over the last 5 years.
- The increasing contribution of long-term protection business already exceeded 60% by the end of 2015
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C-ROSS Reflect Risk Profile

- Solvency I: simple in computing, quantitative capital requirements and **volume-based**
  
  Minimum capital required = a% x statutory reserves + b% x net amount at risk

- C-ROSS: complex in computing, **risk-oriented**:

  ![3 pillars](image)

  - Quantitative Capital Requirement
  - Qualitative Regulatory Requirement
  - Market Disciplines

- Ping An Life's solvency results as of Dec 31, 2015:

<table>
<thead>
<tr>
<th>In million RMB</th>
<th>Solvency I</th>
<th>C-ROSS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actual capital</td>
<td>123,912</td>
<td>444,366</td>
</tr>
<tr>
<td>Required capital</td>
<td>60,981</td>
<td>202,289</td>
</tr>
<tr>
<td>Free surplus</td>
<td>62,931</td>
<td>242,077</td>
</tr>
<tr>
<td>Solvency ratio</td>
<td>203%</td>
<td>220%</td>
</tr>
</tbody>
</table>

Note: As C-ROSS adopts a different valuation framework, the amount of actual capital and minimum capital required are much higher, but the solvency ratio is close to that of Solvency I.
Stable Solvency Ratio under C-ROSS
Resilient Solvency Position under C-ROSS to Weather Falling Interest Rate and Capital Market Fluctuation

Solvency Ratio Impacted by a decline of 100bp in 750-day moving average of CGB yields

<table>
<thead>
<tr>
<th>Base</th>
<th>Stress scenario</th>
</tr>
</thead>
<tbody>
<tr>
<td>221%</td>
<td>205%</td>
</tr>
</tbody>
</table>

-16%

- Loss absorbing capacity of participating and universal life business reduces the impacts of falling interest rates on actual capital
- Falling interest rates result in a decline of required capital

Solvency Ratio Impacted by a decline of 30% in equities

<table>
<thead>
<tr>
<th>Base</th>
<th>Stress scenario</th>
</tr>
</thead>
<tbody>
<tr>
<td>221%</td>
<td>212%</td>
</tr>
</tbody>
</table>

-9%

- Loss absorbing capacity of participating and universal life business reduces the impacts of falling equities on actual capital
- As required capital under C-ROSS is much higher than Solvency I, a decline in equities has much smaller impact

Note: as of June 30, 2016
Conclusion

External Advantages

- Low Penetration of Insurance
- Aging Population
- Market Refocusing on Protection

Sound Business Management and Product Strategy

- Less Affected by Low Interest
  - Long-term protection products are the main contributor of NBEV (taking up 70%)
  - Long-term protection products depend less on interest margin (about 21%)
  - Large residual margin for sustainable future profit

- Prudent Assumptions
  - Prudent actuarial assumptions with low deviation
  - Profit is less sensitive to investment return assumptions
  - On-going review of assumptions and adjustments

- Positive Impact of C-ROSS
  - Better reflects risk exposures
  - Solvency improved steadily
  - NBEV improved due to sound product mix

We are confident in the sustainable growth of Ping An Life!