

IFRS17 Investor Presentation

PICC Group

April 2023

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Life

Small Impact on Revenue

Less impact on PICC, which focuses on P&C business

No Material Financial Impact

Slight impact on assets and liability; No material financial impact

Stable Operating Results

No material change to net profit despite changed profit measurement

Adequate Solvency

Solvency still measured under old standards, not affected by new ones

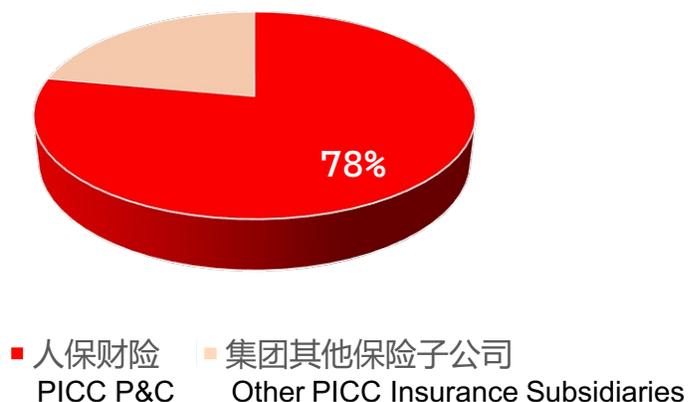
Unaffected Cash Flow

Group cash flow remaining sound, unchanged under new standards

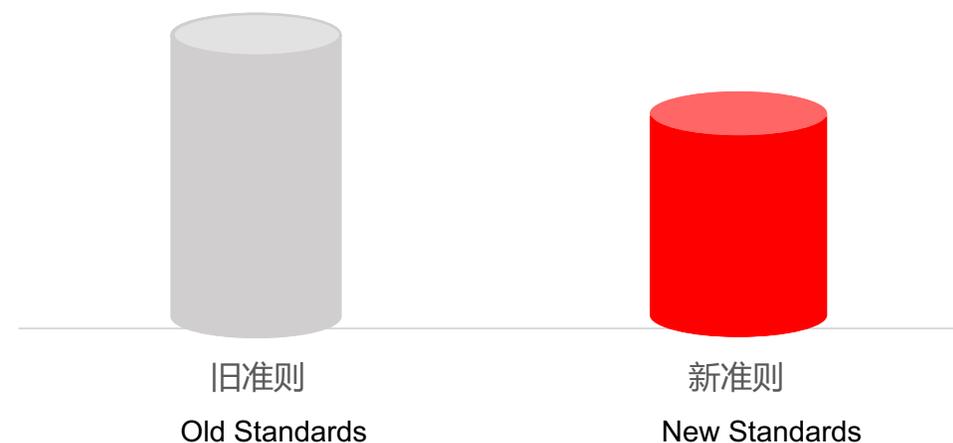
■ Less impact on PICC, which focuses on P&C

- ❑ Less impact on recognition of insurance service revenue of P&C business
- ❑ PICC P&C mainly subject to PAA model
- ❑ In 2022, insurance service revenue under new standards as almost 76% of that under old ones

Share of Premium in 2022 under Old Standards

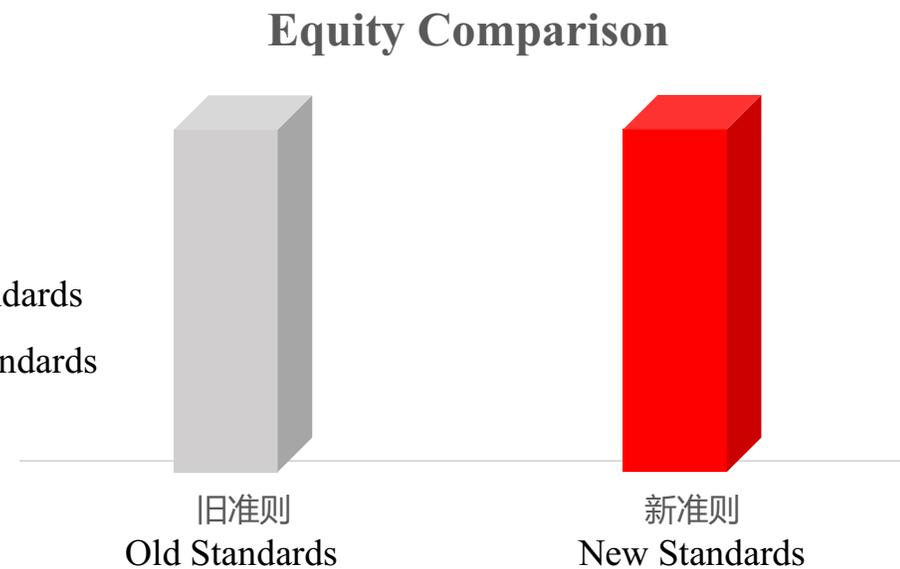
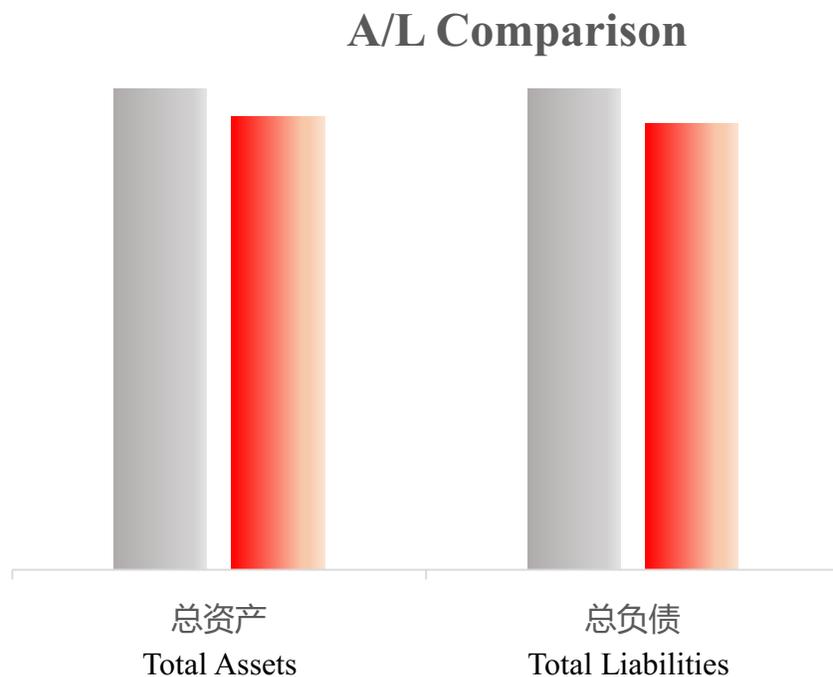


Share of Premium in 2022 Old v. New Standards



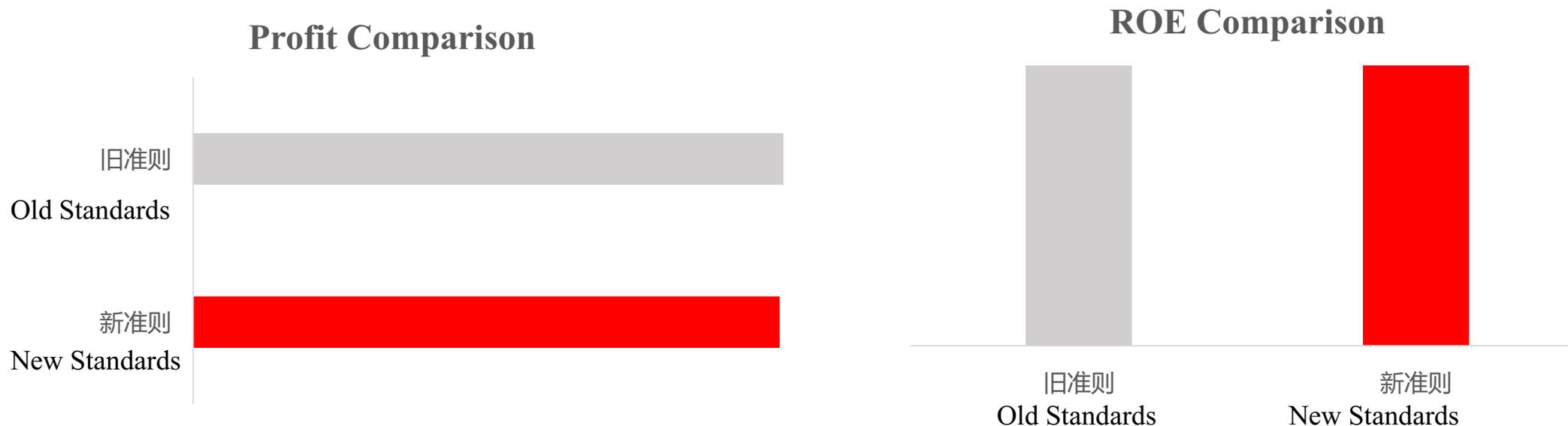
■ No material financial impact despite changed A/L measurement

- Total assets and liabilities slight less v. old standards
- Slightly more shareholder's equity under new ones, with small delta



■ No material change to net profit despite changed profit measurement

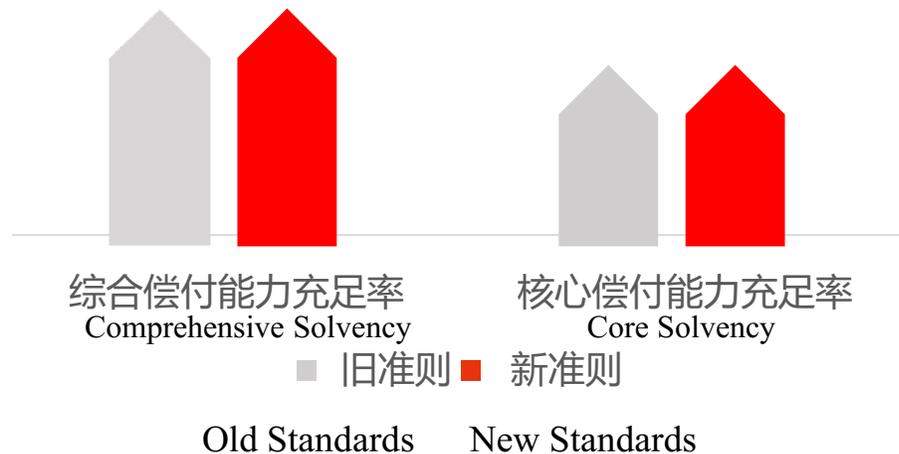
- ❑ Changed revenue recognition, expenses parameters and profit realization model
- ❑ Slightly more consolidated net profit under new standards, with small delta
- ❑ Slightly higher ROE due to both equity and profit



■ Solvency still measured under old standards, not affected by new ones

- *Solvency II Rules* issued by CIBRC in Dec 2021, effective as of 2022
- Group's solvency adequacy ratio compliant with regulatory requirements

Solvency Comparison

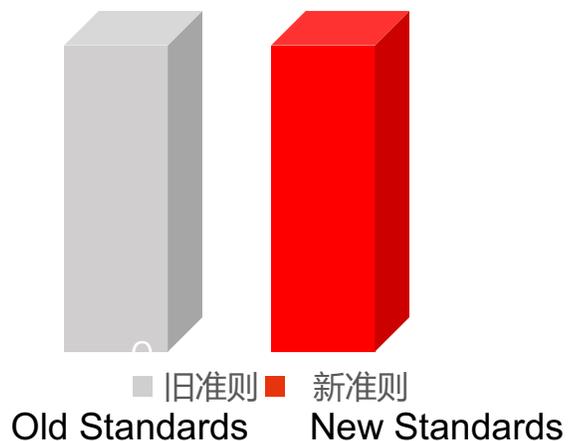


Pursuant to *Solvency II Rules*, the carrying amounts of assets and liabilities for insurance contracts shall be recognized and measured under *EAS No.25-Primary Insurance Contracts* and *EAS No.26-Reinsurance Contracts* published by the Ministry of Finance in 2006, and its *Rules on the Accounting Treatment Relating to Insurance Contracts* published in 2009.

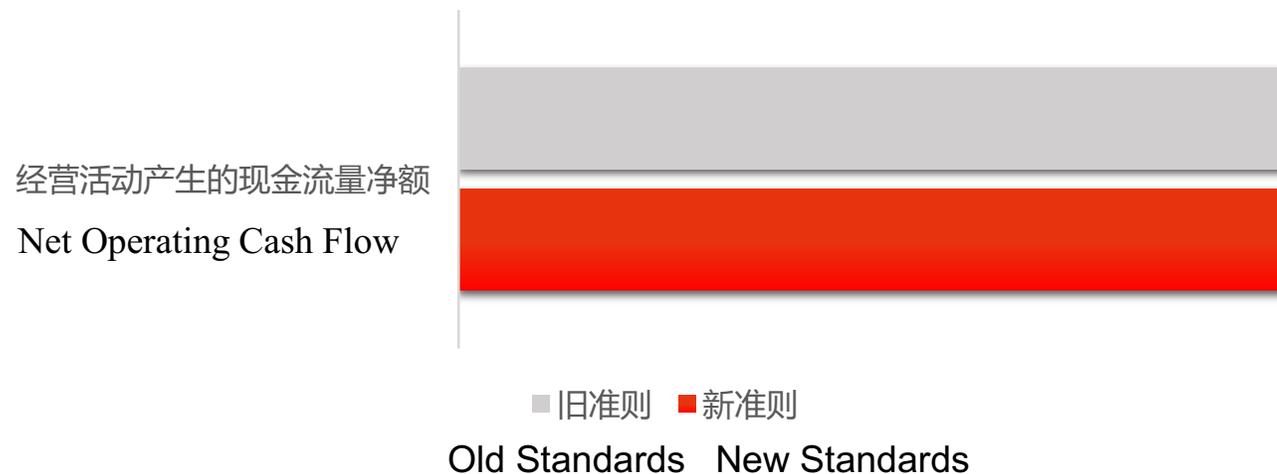
■ Group cash flow remaining sound, unchanged under new standards

- New standards generally affecting only internal booking, but not cash flow
- Group cash flow remaining in sound position

Comparison of Closing Balance of Cash and Cash Equivalents



Comparison of Operating Cash Flow



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Limited Overall Impact

Little impact on P&C due to short term and PAA model

Revenue Similar with Earned Gross Premium

Insurance service revenue under new standards similar with gross premium earned before reinsurance under current standards

Liabilities Impacted by Discount and Interest

Provision and release of insurance contract liabilities impacted by changes in discounting and interest accrual methods

Largely Consistent Reserve Assumptions

Reserve assumptions largely consistent, despite differences in measurement method

No Material Change to Combined Ratio

No material change to combined ratio despite differences in calculation parameters

■ Little impact on P&C due to short term and PAA model

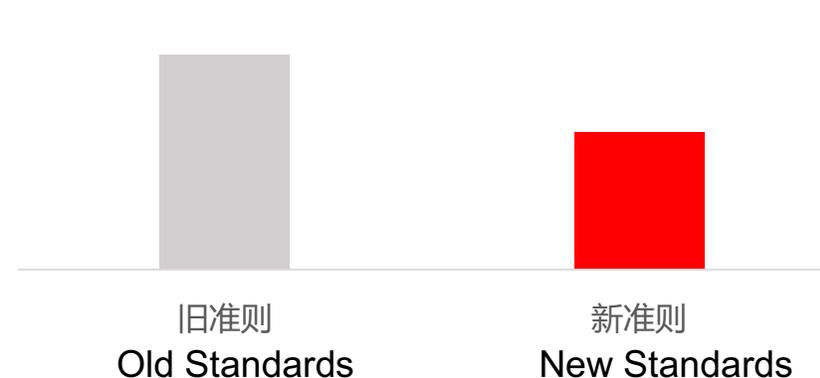
	GMM	PAA
Brief Description	Default model under standards	Simplified common model for short-term and involatile business
Scope of Application	Mainly used for long-term P&C business	Short-term ($\leq 1y$) insurance contracts Insurance contracts passing equivalence test
Main Characteristics	Unbiased estimation of future cash flows and discounted explicit non-financial risk adjustments Profit not recognized on Day 1, but recognized as a contract service margin and amortized into P&L throughout the contract term	Simplified model usable for short-term contracts Results close to common model Additional accounting options available for PAA

- **Insurance service revenue under new standards similar with gross premium earned before reinsurance under current standards**
- **About 88% ratio in new-old insurance service revenue in 2022**
- **Less revenue impact on P&C due to short term, small share of investment, and short period of amortization**

Comparison of Insurance Service Revenue of 2022



Comparison of Insurance Service Revenue of 2023Q1



■ Provision and release of insurance contract liabilities impacted by changes in discounting and interest accrual methods

- Future release of discount impact charged, under new standards, to P&L for insurance liabilities with consideration of impact of discounting
- Changes in the amounts of assets and liabilities resulting from the difference between the current interest rate and the lock-in discount rate to be recognized as other comprehensive income

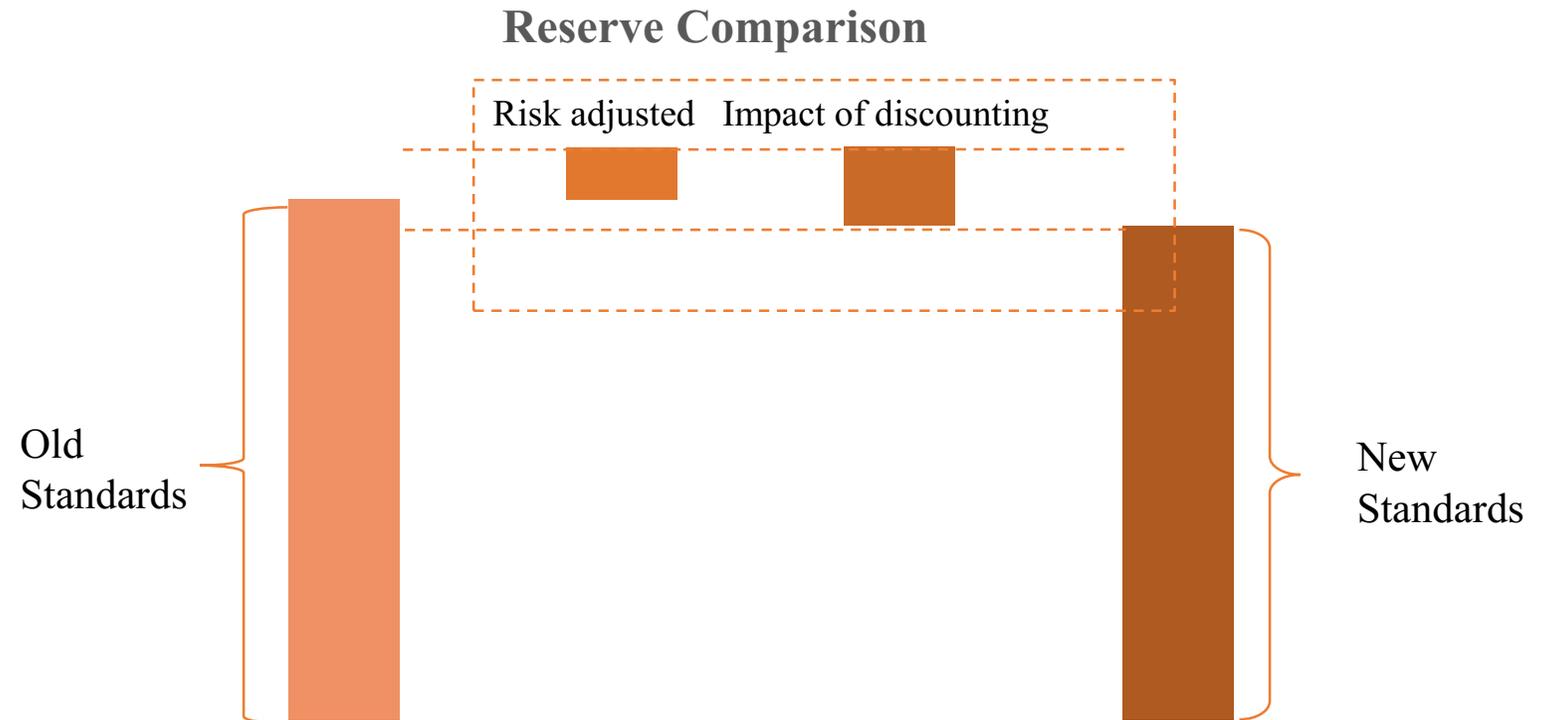
Impact of Reserve Discounting



■ Reserve assumptions largely consistent, despite differences in measurement method

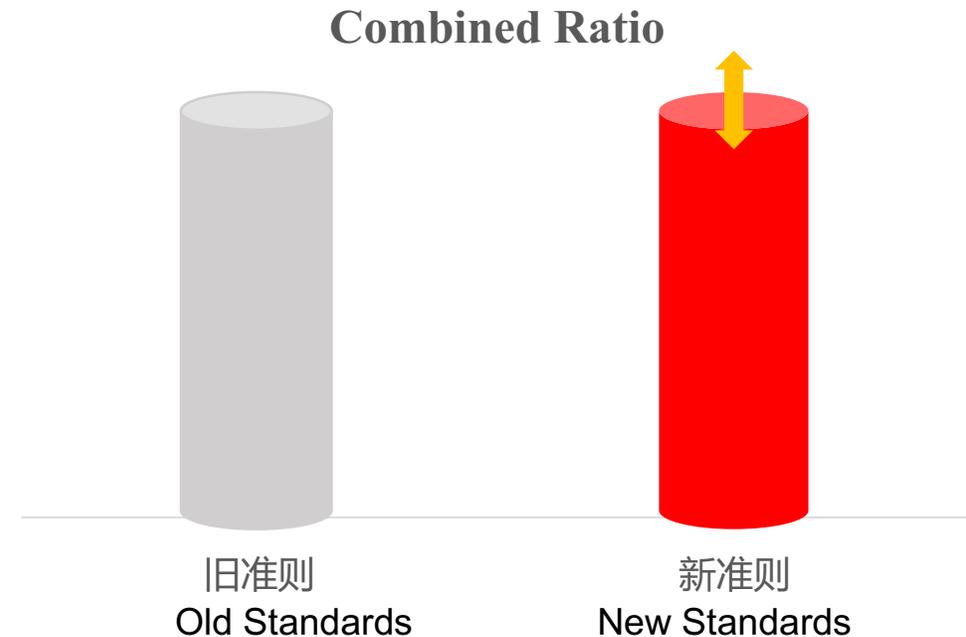
□ Basic reserve assumption consistent with current standards

□ Reserves for outstanding claims required to be discounted and risk-adjusted under new standards



■ No material change to combined ratio despite differences in calculation parameters

- Combined ratio under old standards =
(Loss+ expense) / earned net premium
- Combined ratio under new standards =
insurance service expenses ± reinsurance
P&L and other adjustments) / insurance
service revenue



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Material Overall Impact

New challenges to insurers due to complex measurement and A/L linkage

Material Revenue Impact

Big fall of life insurance service revenue due to divested investment component and termed premium recognition

More Stable Profit

Liability side to decide, per asset side status, whether to exercise other comprehensive income options and stabilize profits

Choice of Measurement Model

Measurement model to be determined under new standards for outstanding liabilities per contract characteristics

Insurance Contract Service Margin

Profit to be more transparent with insurance contract service margin and other changes disclosable under new standards

■ New challenges to insurers due to complex measurement and A/L linkage

**Insurance
contract
measurement**



PAA, GMM, MGMM, VFA and other methods used to measure life insurance contracts, involving complex computing and demanding requirements for data and information system

**Business
development**



Investment component divested under new rules to urge insurers to refocus on insurance as their origin, and advance high-quality development

A/L linkage



For products with high A/L linkage, liability measurement to be affected by FMV of corresponding assets, and in need of further review over investment strategy to improve A/L management, and reduce mismatch risks

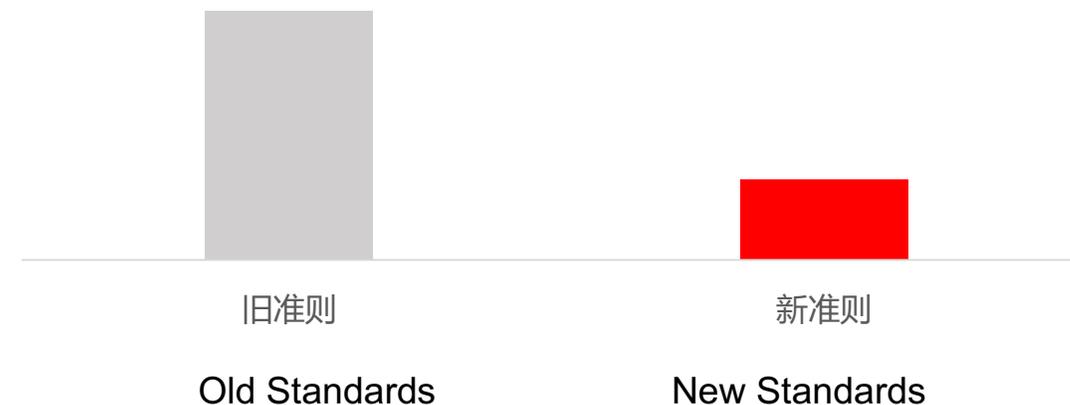
■ Big fall of life insurance service revenue due to divested investment component and termed premium recognition

□ Changed timing of premium divestment and recognition

□ Life insurance service revenue of 2022 under new standards as almost 33% of that under old ones

- Old: Premium revenue fully recognized once insurance contract signed
- New: Phased revenue recognition throughout the term of protection with investment component deducted from customer payment

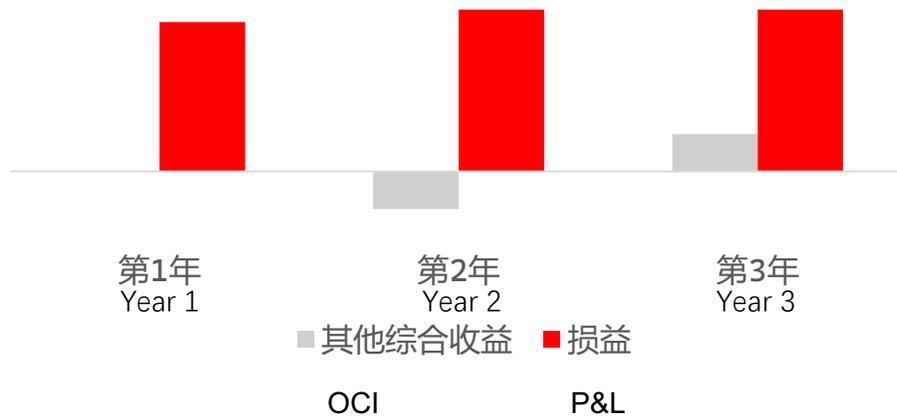
Life Insurance
Service Revenue Comparison



■ Liability side to decide, per asset side status, whether to exercise other comprehensive income options and stabilize profits

- Both asset and liability side to be considered for impact of other comprehensive income options to stabilize profits

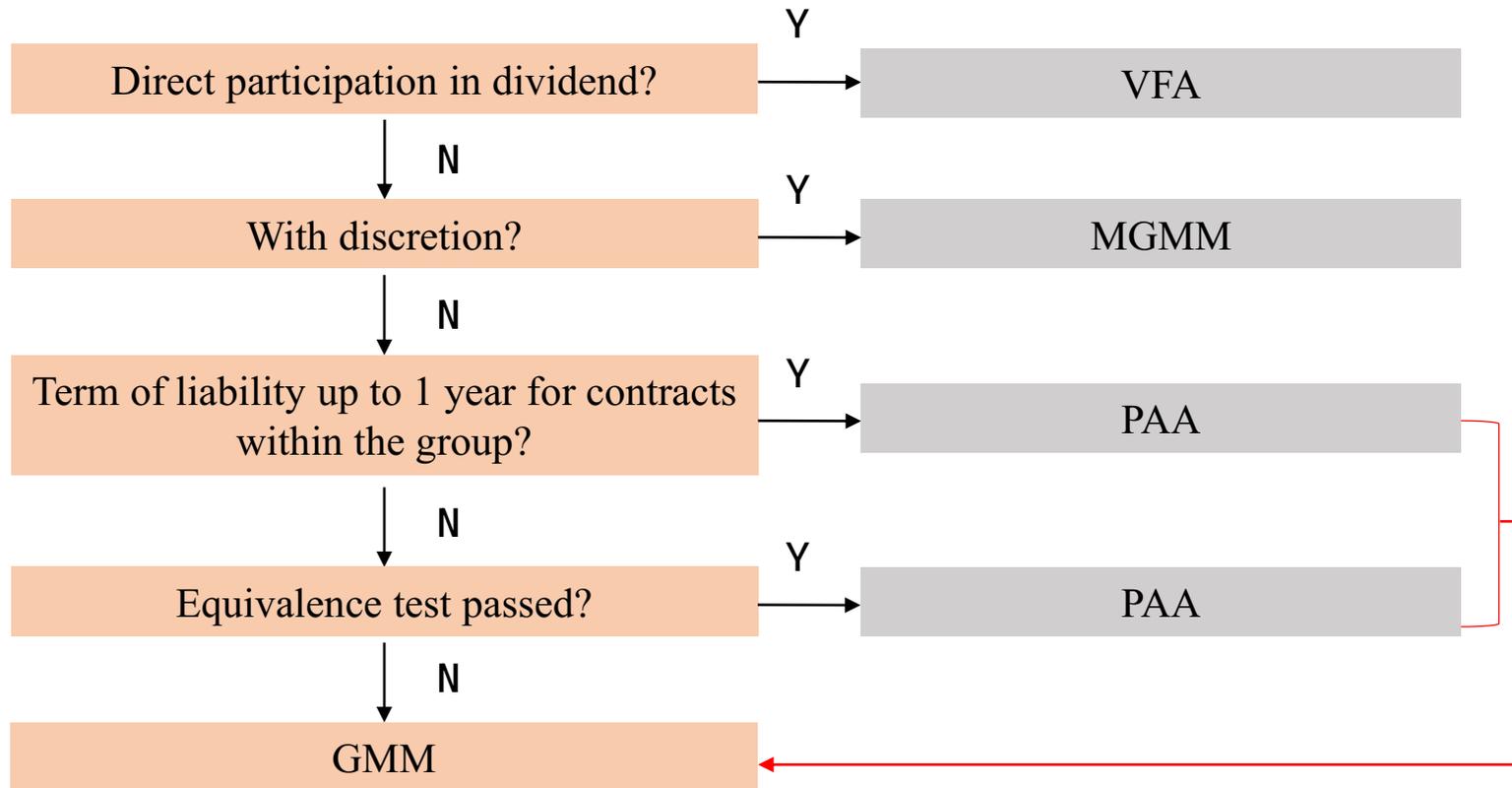
Other Comprehensive Income Used



Other Comprehensive Income Not Used



■ Measurement model to be determined under new standards for outstanding liabilities per contract characteristics



- ❑ VFA for participating insurance;
- ❑ MGMM for universal insurance;
- ❑ GMM for traditional insurance;
- ❑ PAA applicable if term of liability is up to 1 year for contracts within the group, or equivalence test is passed

■ Profit to be more transparent with insurance contract service margin and other changes disclosable under new standards

Non-participating insurance contracts	Participating insurance contracts
Opening balance of insurance contract service margin	Opening balance of insurance contract service margin
Impact of intra-group contracts in the current period on contract service margin	Impact of intra-group contracts in the current period on contract service margin
Interest accrued on contract service margin in the current period	Amount of change in the fair value of the underlying items to which the enterprise is entitled
Amount of change in cash flow of performance related to future services, excluding the impact of loss	Amount of change in cash flow of performance related to future services and not changing with the return of the underlying items, excluding the impact of loss
Balance of exchange for contract service margin in the current period	Balance of exchange for contract service margin in the current period
Amount of contract service margin amortized in the current period	Amount of contract service margin amortized in the current period
Closing balance of insurance contract service margin	Closing balance of insurance contract service margin

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