Company Report

PICC Group (1339 HK)- Buy
Life & Health, Property & Casualty Insurance
Initiation (2013E TP: HK$5.29)

Key sector data

Share price (HK$)	4.48
Target price (HK$)	5.29
Upside potential (%)	18.2
52Wk H/L(HK$)	4.96/3.48
Issued shares:	42,242
Market cap (HK$mn)	190,059
30-day avg vol (HK$mn)	371.4
Major shareholder (%):	
Ministry of Finance, PRC	72.45
NSSF	10.88

Source: Company & Bloomberg

Premium composition in 2011 (%)

P&C	69.9
Life	28.3
Health	1.8

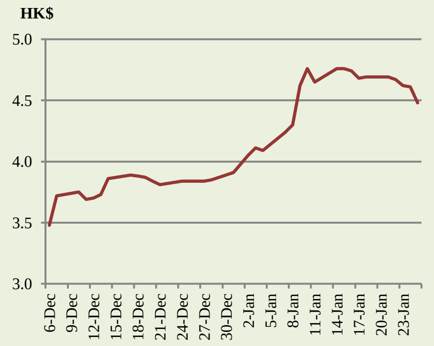
** data as of 2011*
Source: Company data

Sector performance (%)

	Absolute	Relative*
1-mth	16.7	10.9
3-mth	NA	NA
6-mth	NA	NA

** Relative to MSCI Hong Kong Index*
Source: Bloomberg

Price performance since IPO in Dec 2012



Source: Bloomberg

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Dual growth engines

PICC Group is an integrated insurer with dual growth engines. Fast growth would be delivered by L&H and stable growth by P&C. Besides, the insurer is set for good investment performance in 2013, due to the recovering stock markets and stabilized bond returns. Therefore, we initiate our research coverage on PICC Group with a BUY recommendation. Our TP is HK$5.29 (2.11x PEV, 9.3x VNB and 17.4x PER for 2013E) representing 18.2% upside from now.

Dual growth engines. PICCG is an integrated insurer with dual growth engines. Being in an infant stage, PICC Life & Health (L&H) has plenty of room for improvement in premium mix and NBM. The units also outshined their listed peers in EV operating profits for 2011. Meanwhile, PICC P&C generated more profits than any regional peers, per our comparable analysis. The operation has reached its optimal point of operations, currently running at lucrative underwriting margins.

Set for good investment performance. A-share markets have bottomed since late 2012. Also bond prices have been stabilizing since 4Q11, and this helps the EV growth of PICCG. Meanwhile, CIRC's new policy on broadening investment channels will benefit PICCG. Last but not least, PICCG's EV and VNB are more sensitive to investment return than peers. Hence we are positive on PICCG's investment performance in 2013.

More balanced growth prospects than peers: Relative to peers, PICC L&H is less affected by a stagnant industry trend, due to its low base in premium sales. At the same time, PICC P&C can capitalize on the lucrative underwriting cycle as the market leader. Therefore PICCG outshines other integrated insurers with a balanced mix of profits and EV.

Initiate coverage with a BUY recommendation; target price at HK$5.29. Based on our financial forecasts and actuarial assumptions, we derive group appraisal value of Rmb176.6bn in 2013 and adopt it as our target price (HK$5.29/share). In 2013E, we forecast GEVPS and L&H VNB of HK$2.50 and HK$0.12 respectively. The implied valuation of our TP is 2.11x 2013E PEV and 9.3x 2013E VNB. This represents 18.2% upside from now. We initiate coverage of PICCG with a BUY rating.

Risk factors: worse-than-expected underwriting and investment performance, tighter-than-expected regulations

Results and valuation

FY ended Dec 31	2010	2011	2012E	2013E	2014E
Revenue (Rmb mn)	219,856	236,291	260,387	300,857	352,534
Chg (YoY)	*39.5*	*7.5*	*10.2*	*15.5*	*17.2*
Net profit (Rmb mn)	3,987	5,185	9,798	10,176	12,428
Chg (YoY)	*259.8*	*30.0*	*89.0*	*3.9*	*22.1*
EPS (HK$)	0.16	0.18	0.29	0.31	0.38
PER (x)	28.9	24.5	15.5	14.7	11.8
BPS (HK$)	0.90	1.11	1.81	2.10	2.46
P/B (x)	5.0	4.0	2.5	2.1	1.8
EVPS (HK$)		1.5	2.2	2.5	2.9
PEV (x)		3.0	2.0	1.8	1.6
VNB (HK$)		0.12	0.10	0.12	0.14
VNB (x)		14.2	9.2	2.6	(2.7)

** Prices as of 25January 2013*
Source: Company, ABCI Securities estimates

Contents

Executive Summary –Dual growth engines

Dual growth engines; BUY; TP of HK$5.29 on four positives

We are initiating coverage on PICC Group with a BUY recommendation and a target price (TP) of HK$5.29. We believe PICCG is an insurer accelerated by dual growth engines of L&H and P&C. We are bullish on the insurer from now onwards, judging by: (i) pending release of Life & Health value; (ii) most profitable P&C operations in China and Asia; (iii) set for good investment performance; (iv) well-balanced integrated insurer in China. However, we note that PICC Group also has a few investment negatives, which include: (a) stretching and higher-than-peers trading valuation and (b) unproven track record on its L&H business. As a result, while we are positive on the stock's fundamentals, we are holding a slightly conservative stance towards PICC Group. We derived our target price of HK$5.29/share, equivalent to 2.11x 2013E PEV, 9.3x 2013E VNB and 17.4x 2013E PER. Our TP was set by our group appraisal value on different subsidiaries of PICC Group, which represents a 18.2% upside from the current trading price. As such, we initiate coverage of PICC Group with a BUY recommendation.

Pending release of Life & Health value

Better-than-peers prospects in both VNB and EV growth

In our opinion, PICC L&H's value is pending to be released at present. Firstly, quality new premiums, i.e. individual regular premiums, are on the rise since 2009. This trend is sustainable and will help its NBM expansion. Also, based on the experience of Taiping Life, we forecast PICC L&H's VNB to grow exponentially in tandem with improving new premium mix and NBM expansion. Meanwhile, such trend will be reflected in the rising valuation of PICC L&H. Furthermore, PICC L&H embed better EV operating profit margins compared to peers in 2011. That said, the units have a structural advantage on EV growth over its peers. Lastly, the newly announced industry policies, such as the introduction of tax deferred pension products and support on health insurance products in the 12th Five Year Plan, can fuel the growth of PICC L&H in 2012-14E, in our opinion.

Most profitable P&C operations in China & Asia

Biggest, most improved and most profitable P&C operations in Asia

We noted that PICC P&C was the most profitable P&C operations in China and Asia, with its net profits at US$1.3bn (Rmb8.1bn) in 2011. More importantly, PICC P&C delivered better-than-peers-average return on equity (ROE) and combined ratios. PICC P&C continuously improved its combined ratio and underwriting margins since 2009. We believe the operation has reached an optimal point of efficiency at present. Besides, the unit has provided adequate claim provisions since 2005. This will endorse stable claim expenses and underwriting profits going forward. The company's premium growth has recovered from its low since Jan 2011. The growth of its motor insurance has gradually picked up speed along with the sales of passenger cars in China. Lastly, PICC P&C is blessed with the favorable policy on agricultural insurance. The company has a market share of 51.9% in this product line.

Set for good investment performance

Multiple favorable factors for PICCG's investments in 2013

PICCG and its subsidiaries are set for good investment performance in 2013. Firstly, A-share market has bottomed out since early Dec 2012. With the improving economic outlook, we expect further upside for the A-share markets. Therefore we anticipate the equity return to rise for Chinese insurers. Meanwhile, PICCG's EV and PICC P&C's book value are highly sensitive to equity return, as compared to its peers. At the same time, corporate and financial bond return is rising. This helps the EV growth of PICCG. Additionally, we expect PICCG and subsidiaries to benefit from the new policy of CIRC on broadening investment channels for insurers. Lastly, PICCG is more sensitive to investment return than peers on EV and VNB. In fact, the company reported better-than-peers investment return in 2011 and 1H12. Therefore, we are positive on PICCG to ride on the recovery of investment markets.

Well-balanced integrated insurer in China

Growth from L&H, Value from P&C

We consider PICCG to embed the most balanced growth prospects among the listed Chinese insurers. Situating in the infant stage of business development, the prospects of its L&H business is less affected by the current stagnancy of life industry. Fast growth can be achieved through continuous restructuring of premium mix. Its P&C unit is the market leader in premium sales, with 36.3% market share in 2011. Consequently, the unit is in the best position to capitalize on the lucrative underwriting cycle at present. Also, the cross-selling capability among PICCG subsidiaries is yet to explore, generating only 5.6% of group gross written premiums (GWP) in 1H12. Lastly, the current EV mix of PICCG would bring a better prospect on EV growth than those of three other integrated insurers, per our findings.

Valuation & Recommendation- Initiate coverage with a BUY rating and a TP of HK$5.29/share

Initiate coverage with a BUY rating; our TP implied 18.2% upside potential

Based on our financial forecasts and actuarial assumptions, we derive group appraisal value of Rmb176.6bn in 2013 and adopt it as our target price. We appraised PICC Life at Rmb49.0bn, or 2.32x 2013E PEV and 9.1x 2013E VNB, on an attributable basis. Also, we derived a valuation of PICC Health at Rmb13.6bn, or 3.59x 2013E PEV and 9.8x 2013E VNB, on an attributable basis. For the valuation of PICC P&C, we valued it at Rmb90.1bn, or 2.45x 2013E PBV and 10.8x 2013E PER, on an attributable basis. This is the result of our Gordon Growth Model. For PICC Asset Management, we appraised it at Rmb12.7bn, or 1.2x 2013E PBV concluded from the comparable analysis. Lastly, we valued HQ & eliminations at book according to our financial forecast for 2013. As such, our TP is equivalent to HK$5.29/share. In 2013E, we forecast GEVPS and L&H VNB of HK$2.50 and HK$0.12 respectively. The implied valuation of our TP is 2.11x 2013E PEV and 9.3x 2013E VNB. This represents a 18.2% upside from the current share price. We initiate coverage of PICC Group with a BUY recommendation.

PICC Group: investment positives & concerns

PICC P&C (1339.hk), BUY, TP: HK$5.29	'Dual growth engines'
Investment positives	**Investment concerns**
Pending release of Life & Health value	Stretching and higher-than-peers trading valuation
Most profitable P&C operations in China & Asia	Unproven track record on its L&H business
Set for good investment performance	
Well-balanced integrated insurer in China	

Source: Company data, ABCI Securities

Pending release of Life & Health value

PICC Life & Health still in infant stage, embedding huge potential

In our opinion, PICC Life and PICC Health embed massive potential in profit and valuation growth in the coming three years. As of 1H12, PICCG and companies held 80% stake (71.1% by PICCG, 8.9% by PICC P&C) in PICC Life and 90.18% stake in PICC Health. The two units are still situated in an infant stage of business development, as compared to the listed Chinese life insurers.

Individual FYP & Standardized premiums on the rise

Firstly, quality new premiums, carrying high NBM, are on the rise for both of the Life and Health units. First Year Premiums (FYP) with high margins jumped by leaps and bounds in 2009-1H12. Life Individual FYP grew at a CAGR of 122% and Health agency FYP ascended at a CAGR of 25% during the period. According to CIRC, PICC L&H reported a strong YoY growth in standardized premiums for 2011 and 1H12. With better sales in quality premiums, we anticipate both units to further improve their product mix and NBMs. As such, this trend could result in a fast growth in VNB.

PICC Life & Health with high EV operating margins

On the other hand, PICC Life and PICC Health carried higher-than-peers EV operating margins in 2011. Their respective EV margins reached 37.3% and 46.1%, as compared to 22.4% average of life peers. Lastly, the units will benefit from the industry reform on non-bank financial sectors, advocated by various regulators in China, since Jan 2011. We believe that the new policies, such as the introduction of deferred tax pension products and broadening investment channels for insurance funds, will enhance the profitability of PICC L&H in the coming years. To sum, PICC Life's and PICC Health's values are pending to be released at present.

Quality new premiums on the rise

Gradually shifting away from bancassurance

PICC Life and PICC Health have been depending heavily on bancassurance channels for new premium sales. Traditionally, Bancassurance FYP carries low NBM, due to its nature of small protection element and short payment duration (single premium). This is compared to Individual FYP, carrying higher NBM with high protection element and long payment duration (regular premium). In 2009, 96.8% (Rmb44bn) of PICC Life's FYP and 70.2% (Rmb1.2bn) of PICC Health's FYP were sold through banks.

More individual FYP for Life overtime

Such trend was reversing towards 2011. Life individual FYP increased from Rmb1.5bn in 2009 to Rmb7.3bn in 2011 (CAGR of 122%). This constituted 11.5% of total life FYP. Meanwhile, the number of life agents grew 6.9% from 103,125 in 2009 to 110,239 in 1H12. Average monthly FYP per life agent climbed 78.4% from Rmb3,508 to Rmb7,324 during the same period.

Higher productivity from Health Agents

Health agency FYP increased from Rmb517mn in 2009 to Rmb813mn to 2011. Per our estimates, this contributed approximately 20% of total healthy FYP in the same year. During the same period, despite a 31% decrease in number of health agents, average monthly health FYP per agent jumped 129% from Rmb2,263 in 2009 to Rmb5,183 in 2011.

Standardized premiums growing fast

From 2009 to 1H12, PICC L&H has continuously improved its duration mix, evident in the fast growth of standardized premiums by PICC L&H. Standardized premiums are defined as new premium sales adjusted for payment durations. This measurement better reflects the quality of new premiums as compared to FYP. Standardized premiums of PICC Life ascended 16.9% YoY, versus 5.9% YoY drop of FYP and 2.4% YoY decrease of GWP, in 2011. In 1H12, its standardized premiums continue to maintain a

YoY growth of 7.4%. Those of PICC Health gained 66.2% YoY, versus 62.7% YoY increase in FYP and 60.5% YoY surge in GWP, in 2011. In 1H12, its standardized premiums continue to maintain a YoY growth of 51.5%. As such, we forecast improving NBM for both units due to better duration mix of FYP sales in the coming years.

PICC L&H: quality new premiums sales on the rise

(Rmb mn)	2009	2010	2011	CAGR (%)
PICC Life				
Life Banc. FYP	43,963	62,524	57,303	14.2
Life Individual FYP	1,475	6,515	7,253	121.7
Life FYP	46,018	69,899	65,770	19.6
PICC Health				
Health Agency FYP	517	732	813	25.4

(Rmb bn)	2011	YoY (%)	1H12	YoY (%)
PICC Life (Note)				
Standardized premiums	10.4	16.9	6.3	7.4
TWP	84.0	1.9	50.9	11.2
GWP	70.4	(2.4)	42.7	(2.4)
PICC Health (Note)				
Standardized premiums	4.9	66.2	3.5	51.5
TWP	10.3	10.9	7.1	22.2
GWP	4.6	94.8	5.3	77.4

Source: CIRC, PICCG

Note: TWP = Total written premiums, GWP = Gross written premiums

Higher than peers CAGR in FYP

In spite of a temporary setback of FYP growth for 2011, PICC L&H enjoyed a higher CAGR in FYP growth than listed Chinese life peers in 2009-11. PICC Life reported a GAGR of 19.6% on FYP during the period. PICC Health recorded a CAGR of 53.0% on FYP. This is faster than CAGR of (2.2)% to 10.9% for listed Chinese life peers. Based on history, both units could continue to grow faster than peers in FYP in 2012-14E, we believe.

Higher than peers growth in Standardized premiums

Notwithstanding, PICC L&H outperformed its peers in standardized premium growth. In 2011, PICC Life and PICC Health grew standardized premiums by 16.9% YoY and 66.2% YoY respectively. This is compared to YoY declines by four of its major competitors and 0.5% YoY drop of industry. Therefore, we believe PICC L&H will also outperform its peers in quality premium growth in the future.

PICC L&H: FYP CAGR vs major Chinese life Insurers (2009 – 1H12)

(Rmb mn)	2009	2010	2011	1H12	CAGR
China Life	156,156	190,252	163,523	81,824	2.3
Ping An Life	64,984	76,050	70,917	33,502	4.5
CP Life	38,147	54,186	46,936	24,942	10.9
NC Life	44,769	55,966	42,863	22,523	(2.2)
Taiping Life(1)	14,879	24,752	18,202	9,679	10.6
PICC Life	46,018	69,899	65,770	NA	19.6
PICC Health(2)	1,737	2,497	4,063	NA	53.0

Source: PICCG, companies, ABCI est.
Note (1) nominated in HK$ mn (2) Estimated by ABCI

PICC L&H: standardized premiums growth YoY vs major Chinese life insurers (2011)

Life Insurers	2011 Rmb bn	YoY (%)	1H12 Rmb bn	YoY (%)
China Life	55.6	(8.8)	33.3	2.0
Ping An Life	37.0	0.9	22.3	5.4
China Pacific Life	18.8	6.0	11.1	12.2
New China Life	15.7	(12.3)	9.0	(11.8)
Taikang Life	15.6	(17.1)	10.0	(12.9)
Taiping Life(1)	6.9	(19.3)	3.8	(22.4)
PICC Life	10.4	16.9	6.3	7.4
PICC Health(2)	4.9	66.2	3.5	51.5
Industry total	**206.4**	**(0.5)**	**119.2**	**6.0**

Source: CIRC, PICCG

Potential NBM expansion, based on peers' history

Following the trails of Taiping Life & NCI

Based on our findings, PICC Life will repeat the history of Taiping Life, and to a lesser extent of New China Life, in its margin improvement. In 2011, Taiping Life is the 6th largest life insurer and New China Life is the 3rd largest life insurer in terms of gross written premiums in China. We render the new business mix of PICC Life be pre-mature and bode huge potential for improvement in 2012-14E.

Taiping Life demonstrated big improvement in NBM from rising individual FYP

As of 2011, 11.0% of PICC Life's FYP was generated through the individual channel. Concurrently, regular premium sales contributed 10.9% of its total FYP. The NBM was estimated at 5.6% on the basis of FYP. Such premium mix assembles that of Taiping Life in 2006. During that year, Taiping's individual FYP constituted 8.7%, and regular premium FYP contributed 12.9% of total FYP. Its NBM was reported at 4.4% in 2006. Since then, Taiping Life continuously improved its channel and new premium mix in an active manner. In 2011, individual FYP amounted to 24% and regular premiums bestowed 38.6% of total FYP. Consequently, its NBM climbed to 12.3%, 7.9ppt higher than 4.4% in 2006 when its channel and new premium mix was pre-mature. In 1H12, its NBM increased further to 13.3%. We note that New China Life was improving its channel and new premium mix too. Accordingly, its NBM grew from 8.6% in 2010 to 10.5% in 2011, in light of higher contribution to total FYP from individual channel. In 1H12, its NBM expanded to 10.8%.

Assuming NBM expansion for PICC Life

Therefore, we believe PICC Life bears an enormous potential in its NBM expansion. Compared to Taiping Life and New China Life, PICC Life was situated at a pre-mature stage of new premium mix. Accordingly, we forecast its NBM to expand from 5.6% in 2011 to 6.5% in 2014E. By the same token, we forecast its VNB to reach Rmb4.9bn in 2014E, growing at a CAGR of 10.0% in 2012-14E. We anticipate its VNB growth to top the industry during the same period.

PICC Life: potential for NBM expansion, implied from Taiping Life & New China Life

PICC Life

(Rmb mn)	2011	2012E	2013E	2014E	CAGR (%)
FYP	65,770	67,743	71,808	76,116	5.0
VNB	3,713	3,590	4,308	4,948	10.0
VNB margins (%)	5.6	5.3	6.0	6.5	

% of total FYP	2009	2010	2011
-Individual FYP	3.2	9.3	11.0
-Regular TWP	10.5	10.5	10.9
VNB margins (%)			5.6

New China Life

% of total FYP	2010	2011	1H12
-Individual FYP	19.0	23.5	27.1
-Regular FYP	39.1	39.4	38.4
VNB margins (%)	8.6	10.5	10.8

Taiping Life

% of total FYP	2006	2007	2008	2009	2010	2011	1H12
-Individual FYP	8.7	27.6	14.2	19.2	17.1	24.0	22.1
-Regular FYP	12.9	11.8	25.2	40.8	30.6	38.6	37.5
VNB margins (%)	4.4	4.3	5.8	9.1	7.4	12.3	13.3

Source: PICCG, annual reports of New China Life and China Taiping

China Taiping traded at high valuation during the times of NBM expansion

Based on trading history, China Taiping traded at high valuations and share prices during the period of fast VNB growth. As discussed in earlier section, Taiping Life, a 50% owned subsidiary of China Taiping, started to improve its channel and new premium mix intensively from 2006 onwards. According to our observations, the stock traded at high valuation multiples and share prices to reflect these improvements in the following years.

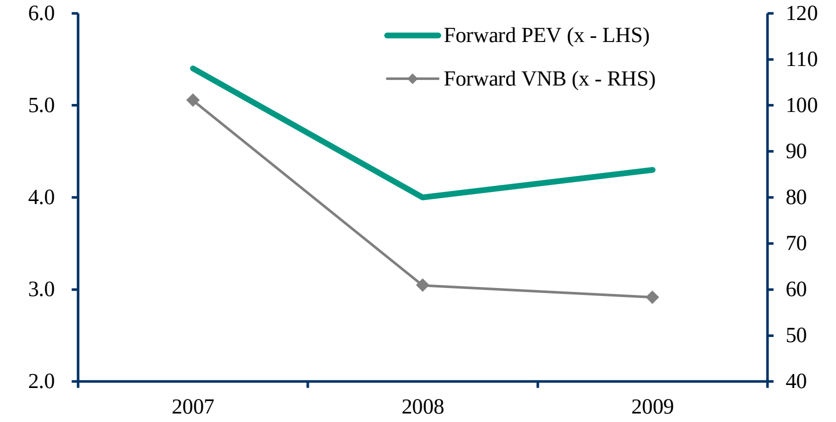
In 2007, China Taiping's share price peaked at HK$26.45 per share, representing 5.4x forward PEV and 101.1x forward VNB. While this is partly

China Taiping averaged 4.6x forward PEV in 2007-09

due to the bullish equity markets (HSI peaked at 31,638pts on 30 Oct 2007), the company upheld high trading valuation and achieved new peak in share prices in 2009. Its share price peaked at HK$30.15 per share, equivalent to 4.3x forward PEV and 58.3x forward VNB. China Taiping's peak valuation averaged at 4.6x forward PEV and 73.4x forward VNB in 2007-09. Therefore, based on its trading history, we believe PICC Life, as a 80% owned subsidiary of PICCG, will constantly be valued at 4.0x forward PEV or above, given its sustainable improvement of NBM and VNB in 2012-14E.

China Taiping: peak share price & valuation (2007-10)

(HK$ per share)	2007	2008	2009	Average
Peak share price	26.5	24.8	30.2	
Forward PEV (x)	5.4	4.0	4.3	4.6
Forward VNB (x)	101.1	60.9	58.3	73.4



Source: Bloomberg, annual reports of China Taiping

Case of AIA Group reveals the margin potential of PICC Health

Referring to the case of AIA China, we are confident of the potential of NBM expansion by PICC Health in the future. AIA Group reported NBM of 58.6% for standalone accident & health (A&H) products in 1H10, as per its IPO prospectus. In the meantime, AIA China carried NBM of 47.2% in 2011 and 55.9% in 1H12. AIA China has been restructuring its new premium mix towards health protection products since AIA Group's IPO in Oct 2010.

Room for further NBM enhancement for PICC Health

Health insurance products of AIA China are usually provided in the form of a rider on existing participating and unit-linked products sold through agency channel. In contrast to AIA China, PICC Health's products are standalone medical care and nursing care products sold through bancassurance channels. At the moment, PICC Health is the leading provider of health insurance, with a market share of 0.93% in the L&H market in 2011. Indeed, PICC Health is gradually developing its agency force. In 2011, the number of health agents reached 13,074 and average monthly health premium sales per agent recorded Rmb5,183. In 2012-14E, we forecast PICC Health's NBM to gradually rise and so will its VNB. In our opinion, the unit will eventually catch up with AIA China on NBM.

PICC Health: potential for NBM expansion, implied from AIA China

PICC Health (Rmb mn)	2011	2012E	2013E	2014E	CAGR (%)
FYP	4,063	4,754	5,562	6,507	17.0
VNB	806	951	1,112	1,301	17.3
VNB margins (%)	19.8	20.0	20.0	20.0	
AIA Standalone A&H	**1H09**	**2H09**	**1H10**		
VNB margins (%)	33.8	49.0	58.6		
AIA China	**2009**	**2010**	**2011**	**1H12**	
VNB margins (%)	25.5	33.2	47.2	55.9	

Source: annual reports and IPO prospectus of AIA Group, ABCI est.

Better EV operating margins than peers

PICC Life & Health with better EV operating margins than peers

According to our analysis, PICC Life and PICC Health bear better embedded value (EV) operating margins than its listed Chinese life peers. EV operating margins are equivalent to the organic growth of L&H EV based on the company's actuarial assumptions. Higher the margins, faster the organic growth of L&H EV. EV operating profits include expected return on beginning EV, new business (VNB) contribution and economic assumption changes.

PICC Life with 27.4% margins in 1H12

Per our calculation, PICC Life increased EV to Rmb22.7bn by 48.9% YoY in 2011. The ending EV contained sizable non-recurring items, such as Rmb7.7bn of economic operating experience variance (mainly investment return variance), and capital injection of Rmb10bn from National Council for Social Security Fund (NSSF). The EV operating profits of Rmb5.7bn summed Rmb4.0bn of new business contribution, Rmb1.3bn of expected return on EV and Rmb400mn of economic assumption changes. These items added 37.3% (EV operating margins) to the beginning EV in 2011. In 1H12, the equivalent margin was 13.7% (27.4% annualized). This is the EV operating margins for PICC Life

PICC Health with 44.4% margins in 1H12

Per our calculation, PICC Health increased its EV to Rmb2.9bn by 14.5% YoY in 2011. The ending EV contained a sizable non-recurring item, Rmb1.5bn of economic operating experience variance (mainly investment return variance). The EV operating profits of Rmb1.2bn summed Rmb818mn of new business contribution, Rmb169mn of expected return on EV and Rmb182mn of economic assumption changes. These items added 46.1% (EV operating margins) to the beginning EV in 2011. In 1H12, the equivalent margin was 22.2% (44.4% annualized). This is the EV operating margins for PICC Health.

PICC L&H: 2011 & 1H12 Embedded Value (EV) movement analysis

	PICC Life EV movement items	**2011**			**1H12**		
		Rmb mn	**% of end EV**	**% of beg EV**	**Rmb mn**	**% of end EV**	**% of beg EV**
a	Beginning EV	15,232	67.1	100.0	22,685	79.2	100.0
b	New business contribution	3,993	17.6	26.2	2,416	8.4	10.7
c	Expected return	1,295	5.7	8.5	832	2.9	3.7
d	Non-economic operating experience variance	(1,584)	(7.0)	(10.4)	(743)	(2.6)	(3.3)
e	Economic operating experience variance	(7,689)	(33.9)	(50.5)	2,040	7.1	9.0
f	Non-economic assumption changes	198	0.9	1.3	1,571	5.5	6.9
g	Economic assumption changes	400	1.8	2.6	(129)	(0.5)	(0.6)
h	Capital change and market value adjustment	10,840	47.8	71.2	(40)	(0.1)	(0.2)
i	Ending EV	22,685	100.0	148.9	28,632	100.0	126.2
	EV operating profits (b + c + g)	5,688	25.1	**37.3**	3,119	10.9	**13.7**
	PICC Health EV movement items	**2011**			**1H12**		
		Rmb mn	**% of end EV**	**% of beg EV**	**Rmb mn**	**% of end EV**	**% of beg EV**
a	Beginning EV	2,538	87.3	100.0	2,907	86.1	100.0
b	New business contribution	818	28.1	32.2	547	16.2	18.8
c	Expected return	169	5.8	6.7	98	2.9	3.4
d	Non-economic operating experience variance	(456)	(15.7)	(18.0)	(329)	(9.7)	(11.3)
e	Economic operating experience variance	(1,455)	(50.1)	(57.3)	143	4.2	4.9
f	Non-economic assumption changes	93	3.2	3.7	45	1.3	1.5
g	Economic assumption changes	182	6.3	7.2	-	-	-
h	Capital change and market value adjustment	1,018	35.0	40.1	(33)	(1.0)	(1.1)
i	Ending EV	2,907	100.0	114.5	3,378	100.0	116.2
	EV operating profits (b + c + g)	1,169	40.2	**46.1**	645	19.1	**22.2**

Source: PICCG, ABCI est.

PICC Life & Health topped the sector in EV operating margins in 2011

In 2011, PICC Life and PICC Health demonstrated higher EV operating margins than its listed life peers. Their margins were 37.3% and 46.1% respectively. New China Life has the next highest EV operating margins of 31.1%, followed by 29.7% of Taiping Life, 23.6% of Ping An Life, 15.9% of China Life and 11.7% of China Pacific Life. As we reiterated, EV operating margins represent the organic growth of EV for any L&H insurer based on actuarial assumptions. In other words, PICC Life and PICC Health log structurally faster organic growth in EV than any of its listed life peers.

PICC L&H: 2011 EV operating profits against peers

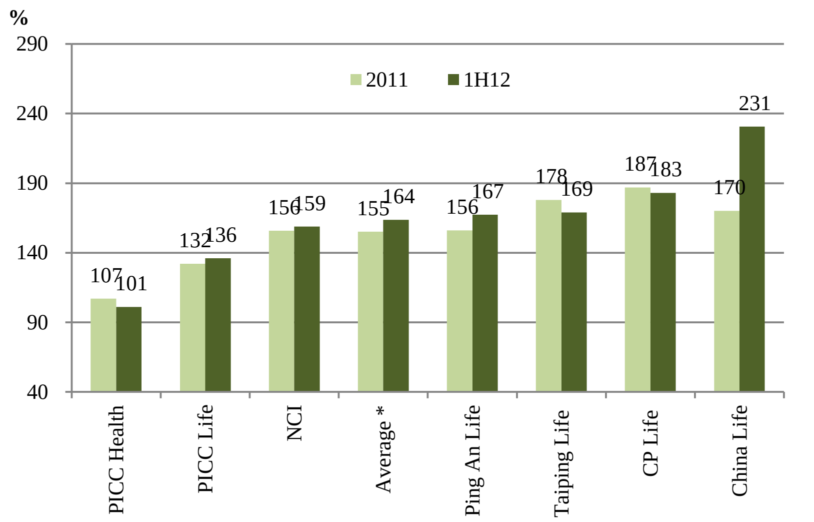
(Rmb mn)	China Life	Ping An Life	CP Life [1]	NCI	Taiping Life [2]	PICC Life	PICC Health
Beginning EV	298,099	121,086	110,089	28,383	17,511	15,232	2,538
Expected return	27,781	12,248	7,254	3,858	2,244	1,295	169
New business contribution	20,199	17,343	6,714	4,681	1,548	3,993	818
Economic assumption changes	(584)	(1,050)	(1,080)	285	1,400	400	182
Others	(52,641)	(5,227)	(9,413)	12,083	(1,129)	1,765	(800)
Ending EV	292,854	144,400	113,564	49,290	21,574	22,685	2,907
EV operating profits	47,396	28,541	12,888	8,824	5,192	5,688	1,169
% of end EV	16.2	19.8	11.3	17.9	24.1	25.1	40.2
% of beg EV (organic EV growth YoY)	15.9	23.6	11.7	31.1	29.7	37.3	46.1

Source: PICCG, companies
Note: (1) group EV, life EV was not separately disclosed (2) nominated in HK$ mn

Both units solvency will be lifted post Dec IPO of PICCG

In 2011 and 1H12, PICC Life and PICC Health maintained a more limited base of capital or solvency than peers. This partly contributed to their higher EV operating margins than peers. PICC Life and PICC Health held solvency margins of 132% and 107% respectively in 2011. In 1H12, their respective solvency margins were 136% and 101%. Their solvency level was higher than the regulatory minimum of 100% set by CIRC. But this lagged behind the recommended level of 150% for major insurers. In addition, this is lower than the average solvency margins of 155% reported by the listed life peers in 2011. However, after the group IPO in Dec 2012, we expect the two divisions to obtain capital injections from parent. Thus, we forecast PICC Life to report 173.5% and PICC Health to report 124.3% solvency margins post capital injection. This will help to resolve the problem of weak capital base of the two units.

PICC L&H: solvency ratio against peers (2011 & 1H12)



*Source: PICCG, annual reports of China Life, Ping An, China Pacific, New China Life and China Taiping Note: * average representing a simple average of solvency ratios of insurance companies in respective periods.*

New Industry Reform fueling growth

Both units to benefit from deferred tax pension products, medicare reform and broadening investment channels

In our opinion, PICC Life and PICC Health will benefit from the latest reforms in the China insurance industry. Firstly, PICC Life could benefit from the newly advocated products of individual deferred tax pension. Moreover, PICC Health could maintain a fast growth trajectory, in tandem with the national policy of promoting medical care and nursing care insurance nationwide, as stated in the 12th Five Year Plan. Lastly, CIRC will broaden investment channels for China insurers. Both PICC Life and PICC Health are expected to benefit from the new measures on investments.

Policy dividend from the prospective reform in pension system

The PRC Government has been endeavoring to promote pension system reform by gradually establishing a multiple-layer social welfare and protection regime and providing basic social pension products, corporate pension products and commercial pension products. The PRC Government also supports the development of corporate pension products and commercial pension products by further increasing tax concessions. In order to promote the development of supplemental pension insurance and supplemental medical insurance through tax benefits, in June 2009, the Ministry of Finance and the State Administration of Taxation jointly issued the Notice on Enterprise Income Tax Policies on Supplemental Pension Insurance Premiums and Supplemental Medical Insurance Premiums (關於補充養老保險費、補充醫療保險費有關企業所得稅政策問題的通知), which states that the supplemental pension insurance premiums and supplemental medical insurance premiums that an employer pays for its employees shall be deductible from its taxable income, provided that each of such premiums do not exceed 5% of the employees' total salaries. In addition, the pilot scheme for the income tax-deferred pension insurance is expected to be carried out in areas including Shanghai and Guangdong Province. The tax benefit provided by the income tax-deferred pension is expected to significantly encourage individuals' demands for commercial pension products and to facilitate the development of the commercial pension insurance market and the improvement of the social welfare system.

New pension product to fill the national pension gap in China, benefiting PICC Life

Such products are designed to fill the gap of national pension deficit in China. In 2011, there are 123mn persons, or 9.1% of total population, exceeding the age of 65 in the country. The asset balance of NSSF was Rmb867bn, or Rmb4,686 per each aged citizen. This is compared to US$7 trillion of pension assets in USA. China pension system is relatively underfunded and hence the new pension products could help to fill such a gap. PICC Life is the 5th largest life insurer in China. Hence we expect the unit to benefit substantially from the new deferred tax products in the future. As such, we forecast PICC Life to grow its premiums at a CAGR of 10.2% in 2013-14E, after a slow year of 2012E.

Medicare reform benefiting PICC Health

At the same time, PICC Health will benefit from the new policy of expanding national medical insurance coverage. In Mar 2012, the State Council promulgated the Plan and Implementation Scheme to Further Reform the Medical and Health System during the 12th Five-year Plan Period ("十二五"期間深化醫藥衛生體制改革規劃暨實施方案), encouraging the use of basic medical care insurance funds to purchase commercial critical-illness insurance. In August 2012, relevant authorities jointly issued the Guidance on Implementation of Critical-illness Insurance Covering Urban and Rural Residents (關於開展城鄉居民 大病保險工作的指導意見), stating that the critical-illness insurance covering both urban and rural residents shall comprise basic medical care insurance and commercial insurance, i.e.

commercial insurance agencies shall provide critical-illness insurance utilizing the funds set aside from the surplus of urban resident medical care insurance funds and new rural cooperative medical care insurance funds. Such model has been implemented in Taicang City, Jiangsu Province on a pilot basis since 2011 and has achieved certain improvements so far. Meanwhile, commercial insurance companies have been proactively participating in the establishment of the current medical care system, which significantly promotes the development of commercial health insurance. This is also adhering to the direction established in the 12th Five Year Plan.

China targeting higher medicare coverage by 2016

In accordance to National Bureau of Statistics of China (NBSC), the urban population with medical insurance coverage was 473mn, compared to the total urban population of 691mn, in 2011. The rural population with medical insurance coverage was 46mn, relative to the total rural population of 657mn, in the same year. In the 12th Five Year Plan, the target was set at 800mn people with medical insurance coverage (519mn in 2011) by 2016. Such policy could lift the premium growth of PICC Health, the market leader in health insurance products. From 2009 to 2011, PICC Health grew its health premiums at a CAGR of 49.0%. We expect the unit to maintain this growth trajectory, growing premiums at a CAGR of 43.7% in 2012-14E.

Zhanjiang Model was a success for PICC Health

PICC Health has been working hand-in-hand with the Chinese government in developing the "Zhanjiang Model" since 2009, when China initiated the nationwide health care system. The model was established to facilitate risk assessment on health products through patient data sharing among 1,300 designated medical institutions in Jun 2012. The data sharing mechanisms were named "Social Security Express" and "Medical Care Express". These mechanisms currently hold a status of government entrusted business, operating in 119 prefecture-level cities and 25 provinces nationwide. In 2011, they supported 56mn customers across the country. In the same year, total written health premiums generated through these mechanisms totaled Rmb2.7bn. From 2009 to 2011, PICC Health's TWPs from commercial insurance products sold to its Government-entrusted Business customers at Zhanjiang City increased at a CAGR of 35.4%, higher than the CAGR of its TWPs from Government-entrusted Business at Zhanjiang City during the same periods, which is 30.1%. Based on the "Zhanjiang Model", PICC Health localized such model in Taicang City, Jiangsu Province, and further developed a new opportunity for Government-entrusted Business in developed areas. The Taicang Project follows the policy of "effective improvement of protection against critical-illnesses by proactively developing and utilizing basic medical insurance funds to purchase commercial critical-illness insurance or provide supplemental insurance" as indicated in the Plan and Implementation Scheme. We regard this as another area where PICC Health can benefit from government policy going forward.

More investment vehicles for insurers overtime

Lastly, CIRC announced further deregulation on insurance fund investments. In July 2012, the CIRC promulgated a series of new rules to further expand the scope of insurance funds deployment, including the Interim Measures on Bonds Investment with Insurance Funds (保險資金投資債券暫行辦法), the Interim Measures on the Administration of Entrusted Investment with Insurance Funds (保險資金委託投資管理暫行辦法), the Circular on Issues Concerning the Investment in Equity and Real Properties with Insurance Funds (關於保險資金投資股權和不動產有關問題的通知) and the Interim Measures for the Insurance Asset Allocation Management (保險資產配置管理暫行辦法). The CIRC is expected to continue introducing similar measures in the near future to, on the basis of effective risk management, further expand the scope and increase the categories of permitted investment for PRC insurance companies, increase the incentives and flexibility of insurance assets allocation, and further promote the marketization of regulation on insurance funds deployment.

PICC Life & Health enjoyed huge growth in investment assets since 2009

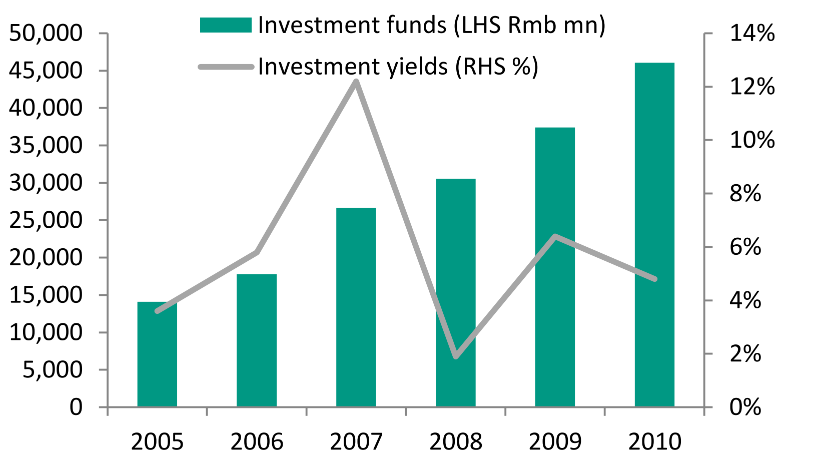
In our opinion, the China insurance industry will benefit from these new policies and raise investment yield accordingly. With relaxing rules on bond investments, insurers can raise recurring investment income, or net investment yield, through higher investment allocation to non-guaranteed corporate bonds and infrastructure bonds. Moreover, insurers could participate in more private equity and real estate projects, which offer long term cash inflow. This helps in the asset liability management of Chinese insurers. Lastly, insurers could smooth returns from the volatile A-share equity markets through lending for margin financing and equity hedging. To sum, we expect both PICC Life and PICC Health to benefit from the new investment policies. From 2009 to 1H12, PICC L&H expanded its investment assets at a CAGR of 58.4%. In 2011, the units contribute 5.6% of industry investment assets, compared to 3.0% in 2009. With higher investment return estimated for the industry, we believe both units will be the major beneficiaries.

PICCG and PICC L&H: investment assets & CAGR (2009 – 1H12)

(Rmb mn)	2009	2010	2011	1H12	CAGR (%)
PICC L&H	**109,010**	**201,711**	**280,346**	**344,087**	**58.4**
PICCG	**238,386**	**371,097**	**481,081**	**542,585**	**39.0**
China Life	1,172,145	1,336,245	1,494,969	1,661,690	15.0
Ping An	589,713	762,953	867,301	986,047	22.8
China Pacific	366,018	435,751	522,530	586,610	20.8
New China Life	197,047	292,866	373,956	452,910	39.5
Taiping Life	79,533	116,209	148,014	173,016	36.5
Industry (1)	3,741,712	4,604,662	5,547,385	6,180,401	22.2

Source: PICCG, annual reports of China Life, Ping An, China Pacific, New China Life and China Taiping   Note: (1) CIRC

China insurance industry: Invested funds and returns



Source: Annual Report of China Insurance Market 2010-11

Most profitable P&C operations in China & Asia

The biggest P&C operations in China

PICC P&C is the most profitable property and casualty operations in China and Asia. As of 2011, PICC Group held 69.98% stake in PICC P&C, with the balance held by AIG (9.9%) and minority shareholders. PICC P&C launched its H-share IPO in Oct 2003. Since then, the company has been the only pure Chinese P&C insurer listed in the Hong Kong market. The company is also the market leader of P&C insurance market in China, with a 36.3% market share in 2011. PICC P&C conveys the following investment positives.

Most profitable P&C operations in Asia with big improvements in ROE & underwriting margins

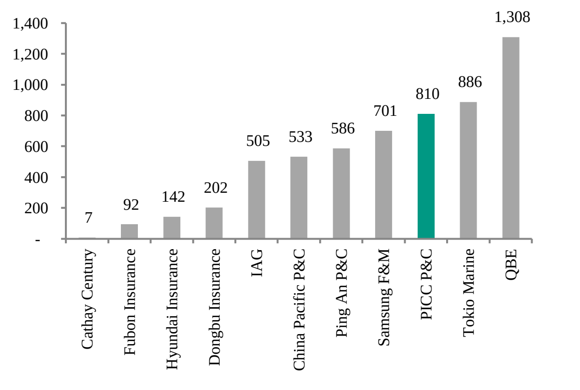
Firstly, the company reported the highest net profits among P&C peers in China and Asia for 2011. From 2009 to 2011, it continued to improve return on equity (ROE) and underwriting margins. Its operating performance was among the best in the region. Secondly, its combined ratios were bottoming in 2011, so its high underwriting margins could sustain in 2012-14E. Thirdly, PICC P&C has made adequate claim provisions since 2005. This helps the sustainability of profits in 2012-14E. Fourthly, PICC P&C's premium sales is rebounding from the beginning of 2012, following a faster sales of passenger cars in Apr and May 2012. Lastly, PICC P&C will benefit from the favorable policy on agricultural insurance.

Highest profits among regional peers

Making most profits among regional peers in 2011

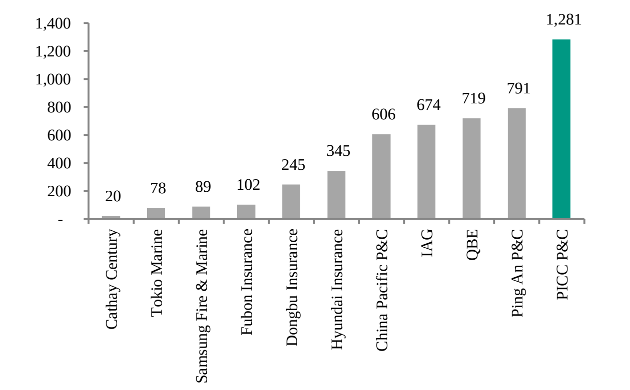
PICC P&C reported net profits of US$1.3bn (Rmb8.1bn) in 2011, up 51% YoY from 2010. This is the most profitable P&C operations in the year. PICC's profits was 178% of QBE's from Australia, 371% of Hyundai Insurance's from South Korea, 1,256% of Fubon Insurance's from Taiwan and 1,642% of Tokio Marine's from Japan. While Ping An P&C and China Pacific P&C delivered considerable profits in the same year, they are parts of the other two integrated insurance groups. Therefore, we regard PICC P&C as the single largest P&C exposure in either China or Asia.

PICC P&C: net profits vs regional peers in 2010



Source: PICCG, annual reports

PICC P&C: net profits vs regional peers in 2011



Source: PICCG, annual reports

Most improved P&C operations in Asia since 2009

Other than the absolute amount of net profits, PICC P&C demonstrated great improvement in operating efficiency during 2009-11. PICC recorded ROE of 26%, ranked the 2nd among 11 peers in Asia. Its ROE improved by 17.4ppt since 2009, topped its peers during 2009-11. In the meantime, PICC P&C reported combined ratios of 94.0%, representing an underwriting margin excluding investment yield of 6.0%, in 2011. Its combined ratio was the 4th lowest among peers. The marginal improvement in its combined ratio was 8.2ppt since 2009, only second to Fubon Insurance (9.3ppt). Therefore, we regard PICC P&C the most improved P&C unit in Asia from 2009 to 2011.

PICC P&C: ROE against regional peers (2009-11)

(%)	2009	2010	2011	Chg since 09
Hyundai Insurance	19.4	14.4	27.6	8.15
PICC P&C	8.6	21.5	26.0	17.36
Ping An P&C	8.6	29.2	25.1	16.57
Dongbu Insurance	22.5	22.3	22.5	0.03
China Pacific P&C	14.0	26.3	19.9	5.95
Cathay Century	21.2	7.8	16.5	(4.70)
Fubon Insurance	6.9	11.9	13.4	6.52
Samsung F&M	23.6	24.6	11.5	(12.18)
QBE	18.4	13.1	6.8	(11.62)
IAG	4.1	1.9	5.6	1.47
Tokio Marine	6.8	3.5	0.3	(6.44)
Average	**14.0**	**16.0**	**15.9**	**1.92**
High	**23.6**	**29.2**	**27.6**	**3.91**
Low	**4.1**	**1.9**	**0.3**	**(3.76)**
PICC Ranking	**7**	**5**	**2**	**Up 5**

Source: PICCG, Bloomberg, annual reports

PICC P&C: Combined ratios against regional peers (2009-11)

(%)	2009	2010	2011	Chg since 09
China Pacific P&C	97.5	93.7	93.1	(4.40)
Ping An P&C	98.9	93.2	93.5	(5.40)
Fubon Insurance	84.7	89.1	94.0	9.30
PICC P&C	102.2	97.6	94.0	(8.20)
Tokio Marine	102.8	90.9	94.1	(8.72)
QBE	89.6	89.7	96.8	7.17
Samsung F&M	103.2	103.1	97.1	(6.17)
IAG	103.7	100.9	97.6	(6.03)
Cathay Century	89.4	103.3	97.7	8.30
Dongbu Insurance	101.8	101.5	99.2	(2.62)
Hyundai Insurance	102.5	103.4	99.4	(3.12)
Average	**97.8**	**97.0**	**96.0**	**(1.81)**
High	**103.7**	**103.4**	**99.4**	**(4.31)**
Low	**84.7**	**89.1**	**93.1**	**8.40**
PICC Ranking	**6**	**5**	**4**	**Up 2**

Source: PICCG, Bloomberg, annual reports

Bottoming combined ratios & stabilized margins

Making underwriting losses before 2009

PICC P&C demonstrated great improvement in combined ratios and hence underwriting profits of different segments from 2009 to 2011. In 2009, the company ran at an underwriting loss (excluding investment yield) of Rmb2.1bn. Only Cargo and 'Other' reported small underwriting profits in the same year. The company's combined ratio was at 102.2%.

Underwriting picking up speed since the industry turnaround in 2010

However, in light of the industry turnaround in 2010, PICC P&C reported underwriting profits of Rmb2.8bn, with a combined ratio of 97.8%. 90.7% of its underwriting profits were contributed from motor insurance in that year. The only loss-making segment was commercial property, with a segmental underwriting loss of Rmb292mn and combined ratio of 104.3%. Eventually, its underwriting performance improved drastically in 2011. Underwriting profits increased to Rmb8.0bn, up 192% YoY, with a combined ratio of 94.0%.

More balanced improvement in 1H12, viewed as a sustainable one

In 1H12, underwriting performance improved further, with profits at Rmb5.6bn, up 14% YoY and 82% HoH. Combined ratio was contained at 92.4%, compared to 92.5% in 1H11. Most importantly, this is a broad-based improvement, with all segments reporting underwriting profits. We believe such an improvement is a balanced and sustainable one, in view of multiple profit sources for PICC P&C in the future.

PICC P&C: underwriting profits & combined ratios (2009-1H12)

(Rmb mn)	2009	1H10	2H10	2010	1H11	2H11	2011	1H12	HoH (%)	YoY (%)
Motor	(1,042)	1,089	1,415	2,492	3,678	997	4,675	3,475	249	(6)
Commercial Property	(1,533)	474	(764)	(292)	145	168	313	663	295	357
Cargo	287	143	199	342	359	389	748	332	(15)	(8)
Liability	(73)	33	34	66	59	262	321	214	(18)	263
Accident	(224)	1	41	42	21	94	115	239	154	1,038
Other	525	178	(76)	98	674	1,170	1,844	688	(41)	2
PICC	(2,060)	1,918	849	2,748	4,936	3,080	8,016	5,611	82	14
									HoH	YoY
Combined Ratio (%)	**2009**	**1H10**	**2H10**	**2010**	**1H11**	**2H11**	**2011**	**1H12**	**ppt**	**ppt**
Motor	101.5	97.7	97.3	97.5	93.0	98.1	95.5	94.1	(4.0)	1.0
Commercial Property	125.5	85.7	121.6	104.3	96.4	95.1	95.8	82.9	(12.2)	(13.5)
Cargo	85.8	89.4	84.4	87.0	76.5	69.7	73.4	76.2	6.6	(0.3)
Liability	102.3	98.4	98.4	98.4	97.4	89.0	93.1	91.8	2.7	(5.6)
Accident	108.4	99.9	97.3	98.5	98.8	95.3	96.9	88.2	(7.0)	(10.6)
Other	93.9	95.0	101.5	98.9	82.1	80.0	80.8	86.8	6.8	4.7
PICC	102.2	96.7	98.7	97.8	92.5	95.4	94.0	92.4	(3.0)	(0.1)
Underwriting profit increment for 1 ppt improvement in combined ratio	933	582	670	1,239	659	672	1,331	735	9	12
1 ppt for U/W profits as % of pretax profits	43	17	21	19	10	19	13	9	(55)	(10)
PICC Pretax Profit	2,167	3,400	3,196	6,596	6,797	3,489	10,286	8,413	141	24
PICC Underwriting Profit	(2,060)	1,918	849	2,748	4,936	3,080	8,016	5,611	82	14
PICC Combined Ratio	102.2	96.7	98.7	97.8	92.5	95.4	94.0	92.4	(3.0)	(0.1)

Source: PICC P&C, PICCG

Continuous improvement in loss ratios since 2007

We believe the improvement in combined ratio and underwriting profits to be sustainable for PICC P&C. In fact, PICC P&C has well contained its loss and expense ratios, as compared to its P&C peers in China, since 2007. In 2008, PICC P&C reported peaking loss ratios, due to Sichuan Earthquake and South China flooding. From 2009 to 2011, the unit improved its loss ratio by 10.1ppt to 65.8%, under the circumstance of relative milder natural disasters and better claim management. In 1H12, PICC P&C demonstrated an even better performance in claims, with its loss ratios declined further to 61.5%. So far in 2H12, there has been no major natural disaster assembling the magnitude of those in 2008. Hence we believe PICC P&C can maintain its loss ratio at around 65% in 2012-14E.

PICC P&C: loss & expense ratios vs major peers in China (2007 – 1H12)

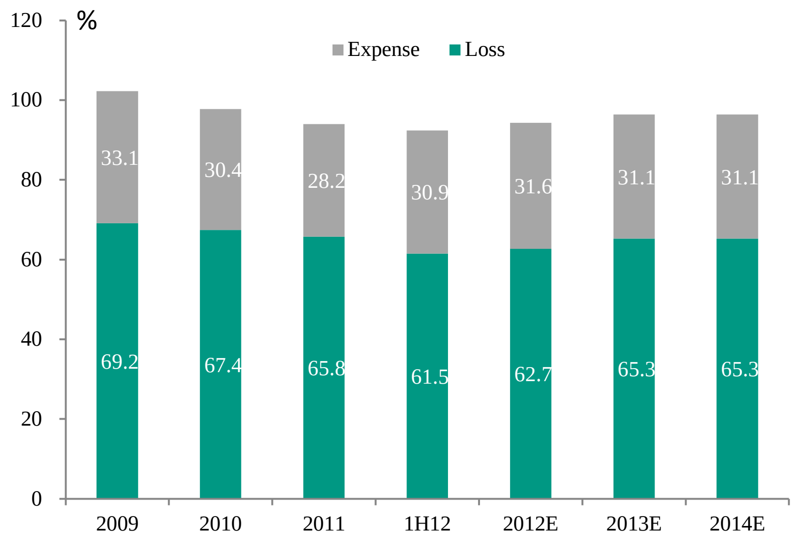
(%)	2007	2008	2009	2010	2011	1H12	Improvement fm Peak (%)
PICC P&C							
Loss	68.3	75.9	69.2	67.4	65.8	61.5	(14.4)
Expense	33.8	27.4	33.1	30.4	28.2	30.9	(2.9)
Ping An P&C							
Loss	66.0	68.1	57.0	55.4	57.8	58.5	(9.6)
Expense	32.6	36.3	41.8	37.9	35.7	34.6	(7.2)
China Pacific P&C							
Loss	60.9	64.9	61.0	57.4	58.5	59.6	(5.3)
Expense	37.8	37.9	37.3	36.6	34.8	34.6	(3.3)

Source: PICC P&C, PICCG, annual reports of Ping An and China Pacific

Expense ratios still weaker than Ping An & China Pacific

On the other hand, PICC P&C boosted efficiency by the implementation of centralized IT and claim system throughout 2009 and 2010. As a result, PICC P&C recorded 4.9ppt lower expense ratio since 2009 and 5.6ppt since the peak in 2007. In 2011, PICC P&C reported an improved expense ratio of 28.2%, resulted from the economies of scale as the market leader. In 1H12, its expense ratio edged tiny bit to 30.9%. Nevertheless, it was still lower than that of Ping An P&C (34.7%) and China Pacific P&C (34.7%). Projecting forward, PICC P&C will contain its expense ratio at 32% or below in 2012-14E.

PICC P&C: loss & expense ratios (2009 – 14E)



Source: PICC P&C, PICCG, ABCI est.

Well reserved for claims

Inadequate claim provision before 2009

PICC P&C was complained about the adequacy of claim provision in earlier years. However, as time goes by, the company has largely resolved the problem through making higher claim provisions and improving loss ratios. In 2005, PICC reported net outstanding claim reserve of Rmb15.4bn, representing only 31.0% of net earned premiums (NEP). The claims paid-to-incurred ratio recorded 95.8%, reflecting minimal excess provisions for future claim payables. The contemporary loss ratio was 73.0%. The company's management was aware of the problem and strengthened the underwriting discipline from 2009.

Pay-to-incurred ratio largely improved since 2010

Since then, substantial progress has been made on the adequacy of claim provision. In 2011, net outstanding claims reserve reached Rmb62.6bn, representing 47% of NEP. The claims paid-to-incurred ratio edged lowered to 87.9%, reflecting higher excess provision for future claim payables. In 1H12, the reserve was further raised to 49.8% of NEP, and the claims paid-to-incurred ratio was lowered to 76.6%. Based on such an improvement, we are turning more positive on the sustainability of PICC P&C's profits. We believe its profits will not be adversely affected by under-provided claims in the future.

PICC P&C: net outstanding claims reserve (2005-1H12)

(Rmb mn)	2005	2006	2007	2008	2009	2010	2011	1H12
Net earned premiums (NEP)	49,802	55,616	68,728	80,019	93,296	122,990	133,134	73,539
- YoY Chg (%)		11.7	23.6	16.4	16.6	31.8	8.2	11.5
Net outstanding claims reserve (NOC)	15,446	16,621	22,425	26,460	40,643	52,067	62,627	73,203
- YoY Chg (%)		7.6	34.9	18.0	53.6	28.1	20.3	16.9
NOC / NEP (%)	31.0	29.9	32.6	33.1	43.6	42.3	47.0	49.8
Claims paid to incurred (%)	95.8	97.0	87.6	93.4	78.0	86.2	87.9	76.6
Loss ratio (%)	73.0	69.4	68.3	75.9	69.2	67.4	65.8	61.5

Source: PICC P&C, PICCG

Recovering motor sales leading to rebounding premiums

Worrying sign for P&C industry in early 2012

In Jan 2012, PICC P&C experienced slow growth in premiums (-0.5% YoY), along with a sharp decline in passenger car sales (-24% YoY) in China. The slowdown was extended from 2H11. In 2011, passenger car sales grew by merely 2.6% YoY. In the same year, motor insurance contributed premiums of Rmb105bn, or 78.8% of the company's total NEP. Therefore this is viewed as a worrying sign to PICC P&C and to the industry as a whole.

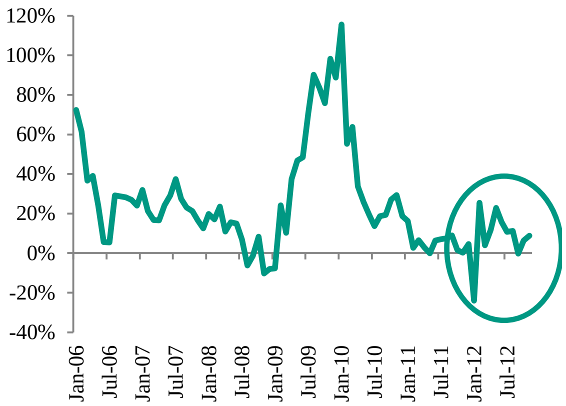
Car sales recovering slowly from the earlier weakness

Nevertheless, passenger car sales recovered rapidly from Feb-Mar 2012 onwards. The monthly passenger car sales rose 8.8% YoY in Nov 2012. Such growth far exceeded the 2.6% YoY growth in 2011. More importantly, passenger car sales may climb further on the back of new policy of 'Motors to County area'. Accordingly, rural residents could receive financial subsidy of up to a maximum of Rmb5,000, or 10% of car purchase price, for buying any passenger cars implanted with an engine of 1.3cc or below. This will serve as a major driver of rebounding motor premiums for the company towards end 2012 and entering 2013.

PICC reporting sharp rebound in premium growth rate towards end-2012

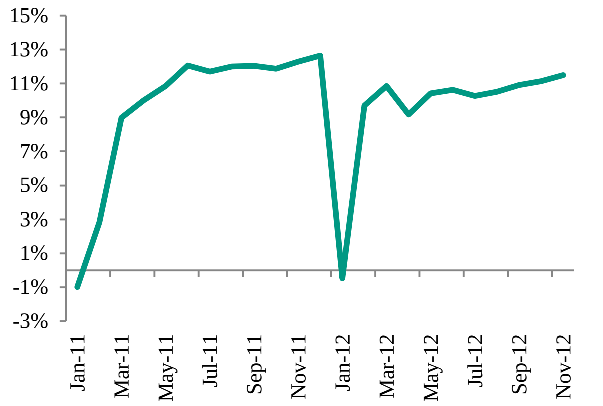
In fact, the company's premium sale growth rebounded from the low in Jan 2012. Year to Nov 2012, PICC P&C reported premium income of Rmb175.6bn, up 11.5% YoY. This was compared to a decline of 0.5% YoY in Jan 2012. With a continuous increase in car ownership (105.8mn in 2011, +16.7% YoY) in China, we forecast passenger car sales to maintain a double digit growth rate in 2012-14E. Based on this assumption, we forecast premium growth of 11.4% YoY in 2012E, 12.7% YoY in 2013E and 12.8% YoY in 2014E, for PICC P&C.

China: YoY growth of passenger car monthly sales (Jan 2006 – Nov 2012)



Source: Bloomberg, ABCI

PICC P&C: cumulative premium growth YoY (Jan 2011 – Nov 2012)



Source: CIRC, ABCI

PICC P&C: premium growth & market share (2005 - Nov 2012)

(Rmb mn)	2006	2007	2008	2009	2010	2011	Nov 2012	CAGR (%)
PICC P&C	71,299	88,592	101,656	119,464	153,930	173,372	175,609	17.9
- YoY Chg (%)		24.3	14.7	17.5	28.9	12.6	11.5	
Industry	158,035	208,648	244,625	299,290	402,689	477,906	499,165	22.9
- YoY Chg (%)		32.0	17.2	22.3	34.5	18.7	15.5	
Market Share (%)	45.1	42.5	41.6	39.9	38.2	36.3	35.8	

Source: CIRC, ABCI

Agricultural insurance aligning with national policies

PICC set to benefit from the 'Sannong' policy

In our opinion, PICC P&C is in the best position to ride on the national policy of 'Sannong', the acronym in Chinese for "agricultural, county areas and farmers", advocated in the 12th Five Year Plan in 2011. In 2010, Agriculture insurance premiums grew 18.6x from Rmb730mn to Rmb13.6bn in China. In 2011, its premiums grew by 28% YoY to Rmb17.4bn. Such growth rate exceeded the P&C industry premium growth of 18.7% YoY in the same year. At present, Agriculture premiums contributed to merely 3.6% of total P&C premiums. PICC P&C was the market leader in the product, with a 51.9% market share (Rmb7.1bn of agriculture premiums) in the same year. Agriculture premiums constituted 5.4% and 8.1% of the company's premiums in 2011 and 1H12 respectively. PICC's agriculture insurance premiums recorded Rmb9,430 mn in 2011 and RMB8,159 mn in 1H12. This product increased at a CAGR of 16.1% since 2009.

Unparalleled distribution network in county areas

In the future, we believe this product will continue to fuel growth of PICC P&C, owing to the following reasons. Firstly, the company is the pioneer of insurance distribution in county areas, defined as areas designated as counties or county-level cities under China's administrative division system. County Areas include county centers, towns and the rural areas within their jurisdictions. In 1H12, 87,100, or 51.4% of its total P&C agents, were located in these areas. Consequently, PICC P&C has a high premium contribution, with Rmb43.8bn or 43.4% of PICC P&C's Original Premiums, generated from county areas. The company was the single largest distributor of agriculture insurance in the country at present.

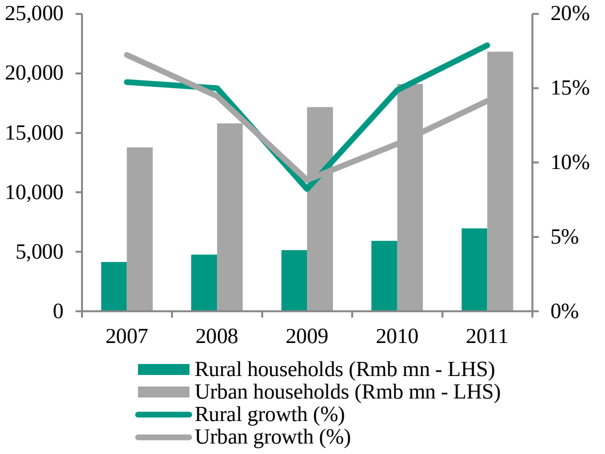
Success of Changde model set the future direction of agricultural insurance

Secondly, PICC P&C developed the "Changde model" in 2007. Such model empowered different branches to gain integrated access to customer information in the scattered county areas. The model was proven to be a success. In 2011 and 1H12, through this model, the company achieved 118.2mn and 70.4mn customer sales on agriculture insurance products, and 62.6mn and 58.1mn households in the number of insured for rural housing insurance.

Strong edge against Ping An and China Pacific in agricultural insurance

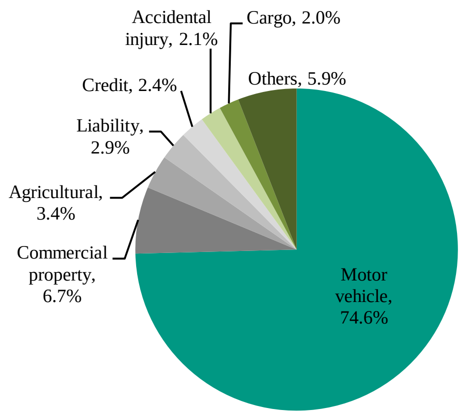
To sum, PICC P&C has a unique angle in the fast growing agriculture insurance. Major P&C competitors, such as Ping An P&C and China Pacific P&C, do not have parallel distribution capability and established infrastructure in this product line. In 2011, the company has only 118mn customers for the product, compared to the total rural population of 657mn. Therefore, we see an enormous potential for this product in the future.

China: Disposable income per capita and YoY, 2007-11



Source: NBSC

China: agricultural premiums vs other P&C premiums (2010)



Source: Annual Report of China Insurance Market 2010-11

Set for good investment performance

Recovering A-share market poises good returns for PICCG

In our view, PICCG and its subsidiaries are set for good investment performance in 2013. Firstly, A-share market has bottomed out since early Dec 2012. With the improving economic outlook, we expect further upside for the A-share markets. Therefore we anticipate the equity return to rise for Chinese insurers. Meanwhile, PICCG's EV and PICC P&C's book value are highly sensitive to equity return, as compared to its peers.

Rising corporate & financial bond return benefiting PICCG

Secondly, bond prices have been stabilizing, reflecting the loosening liquidity environment, since 4Q11 in China. 67% of PICCG's investment assets were allocated in fixed income securities. According to Bloomberg, the prices of China government bonds, corporate bonds and financial bonds are all on the holding up well since early 2012. Such trend will have a positive impact to PICCG's book value and EV in 2012. Furthermore, this could help to maintain a stable available-for-sale (AFS) reserve of PICCG carried over from 2011.

More investment vehicles available for PICCG

Thirdly, PICCG and its subsidiaries will benefit from the new policies of broadening investment channels for insurers, as mentioned in earlier sections. The relaxation on investment limits in different asset classes will help lifting net investment yields of PICCG. New policies on stock lending for margin financing and derivative hedging on equity investments will smooth equity return of PICCG over time.

To sum, we expect PICCG to report high gross investment yields, due to mark-to-market gains on both equity and bond investments, in 2012-14E. However, owing to the low interest rate environment, we forecast net investment yields to decline slightly in the coming two years.

Bullish outlook of A-share markets

ABCI forecasts a 8.1% GDP growth in 2013 (7.8% in 2012)

In accord to Banny Lam, ABCI's chief strategist, 2013 will be marked by China's new leadership with policy initiatives aiming at 'Four New Modernizations' of China's economy. Improving economic indicators has supported a turnaround in the oversold A-share markets in 4Q12 and investors would likely increase their optimism on the pace of the China's economic recovery in 2013. ABCI expects China's economic growth at 8.1% in 2013, compared to 7.8% in 2012.

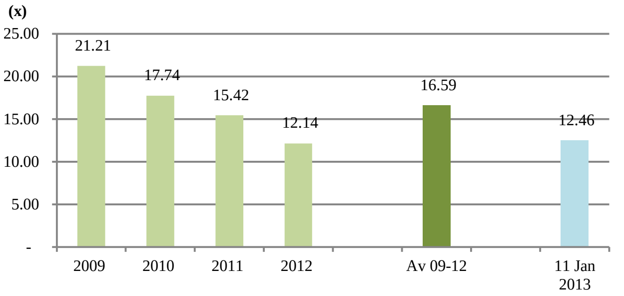
2013 similar to 2009, CSI 300 rose 96.7% in 2009

Attractive stock valuations in A-share markets, loosening monetary environment, positive economic outlook and recovery of corporate earnings will drive the flow of domestic liquidity back to the China equity markets. As mentioned, 2013 is the year of recovery for China economy. In our opinion, this is similar to the year of 2009, when real GDP growth recovered from 6.8% in 4Q08 and 6.2% in 1Q09, to 7.9% in 2Q09 and 9.1% in 3Q09. During the year, CSI 300 rose 96.7% from 1,818pts to 3,576pts. The average valuation of CSI 300 was at 21.2x forward PER and 3.0x forward PBV in 2009.

CSI 300 currently trading far below historical average

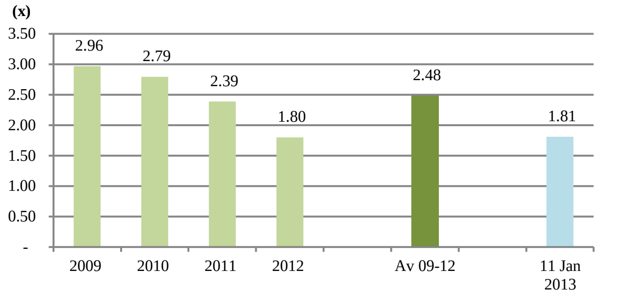
Currently, CSI 300 trades at 12.5x PER and 1.8x PBV, despite its sharp rebound since early Dec 2012. From 2009 to 2012, the average trading valuation was 16.6x forward PER and 2.5x forward PBV. As a result, A-share markets are still trading at a valuation far below historical average. Therefore, this will pose an ample upside for a mean reversion of CSI 300 in 2013.

CSI 300:average trading PER (2009 – 2012)



Source: Bloomberg, ABCI Securities

CSI 300:average trading PBR (2009 – 2012)

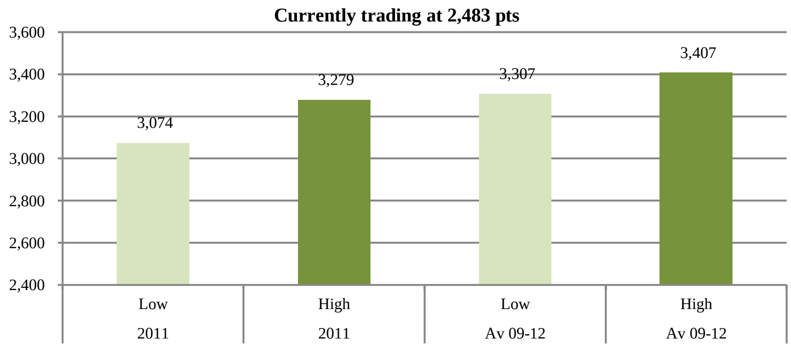


Source: Bloomberg, ABCI Securities

CSI 300 could reach 3,074 or above, if applying 2011 valuations

While ABCI does not maintain a year-end trading target for A-share markets in 2013, we believe CSI 300 could trade up to 3,074 or above by year-end. We applied the average trading valuations of 2011, the starting year of recent economic slowdown in China, to reach such a conclusion. Based on the average PER of 15.4x, CSI 300 will reach 3,074pts, representing a 23.8% upside from now. By the same token, based on the average PBV of 2.4, CSI 300 will reach 3,279pts, representing a 32.1% upside from now. Should we apply the average trading valuation of 2009-12, A-share markets will bear an even-bigger upside potential. To sum, we are very bullish on the A-share market outlook in the year of 2013.

CSI 300: implied 2013 targets from trading valuations of 2011 & Av 09-12



Source: Bloomberg, ABCI Securities

High sensitivity to equity investments by PICCG

In view of a possible rebound of A-share market towards end-2012, we render PICCG and PICC P&C the foremost beneficiaries. According to their risk disclosure, the equity value-at-risk (VaR) at a 10 days interval is higher than that of Ping An and China Pacific, in terms of the contribution to equity investments, total investment assets and EV (book value for PICC P&C). China Life, New China Life and Taiping Life did not measure risk exposure to equity investments in the same methodology. In other words, PICCG and PICC P&C may benefit the most from mark-to-market equity gains, due to higher-than-peers sensitivity to equity investments. Therefore, we are positive on the units for rebounding equity returns.

PICCG & PICC P&C: equity value-at-risk on 10 day market price (2011)

(Rmb mn)	PICCG	PICC P&C(1)	Ping An	China Pacific
Equity VaR (10 days)	4,963	1,923	7,150	1,622
Equity investments	59,997	24,705	99,740	53,573
- Equity VaR as %	8.3	3.2	11.9	2.7
Investment assets	481,081	190,037	867,301	522,530
- Equity VaR as %	1.0	1.0	0.8	0.3
2011 Embedded Value	105,865	35,881	260,088	113,564
- Equity VaR as %	4.7	5.4	2.7	1.4

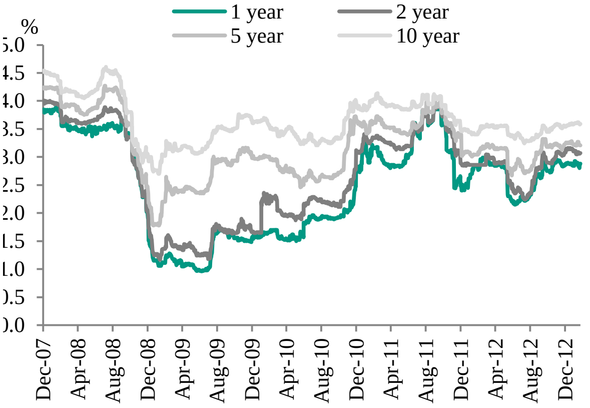
Source: PICC P&C, PICCG, companies

Note: (1) book value or shareholder's equity, not embedded value, for PICC P&C

Corporate & Financial bond return on the rise

Bond prices have been stabilizing, reflecting the weakening economy and loosening liquidity hereafter, since 4Q11 in China. This trend will benefit PICCG's EV and book value in 2012 and 2013, we believe.

China: government bond yields for various maturities (Jan 2008 - present)



Source: Bloomberg, chinabonds.com.cn

China: financial & corporate bond return indices (Oct 2008 - present)

Source: Bloomberg, chinabonds.com.cn

Government bond prices stabilized towards end-2012

China government bond yields of various maturities (1, 2, 5 & 10 years) dropped by 49-98bps in 4Q11. After a rebound in 1Q12, bond yields resumed its downward trend in 2Q12. In 2H12, bond yields picked up again, in light of a market expectation on stabilized CPI till end-2012. To sum, bond yields rose by 25-73bps in 2H12, compared to 29-201bps from 1Q10 to 3Q11. In accordance, we estimate China government bond prices to stabilize in 2013. We applied the modified durations of these bonds obtained from Bloomberg for estimating the changes in bond prices. As of 1H12, 9.5% of PICCG's fixed income investments were allocated to China government bonds. The group's fixed income portfolio totaled Rmb221.9bn in the year.

Corporate & Financial bonds yield good return since 2011

Meanwhile, China corporate and financial bonds delivered higher returns. According to Bloomberg, China corporate bond total return index rose 8.2% from 116.5 at end-2011 to 126.1 at end-2012. Corporate bonds constituted 31.7% of PICCG's fixed income portfolio in 2011. China financial bond total return index ascended 2.9% from 139.6 at end-2011 to 143.6 at end-2012. Financial bonds contributed 52.6% of the group's fixed income assets in the same year.

China: est. price changes of government bonds (2008 – present)

(%)	1 year	2 year	5 year	10 year
2008	2.37	4.93	10.27	13.91
2009	(0.40)	(0.69)	(5.03)	(7.20)
2010	(1.49)	(3.19)	(2.47)	(2.21)
2011	0.56	0.98	2.10	3.84
2012	(0.20)	(0.44)	(0.59)	(1.23)
2013 YTD	(0.04)	0.05	0.04	-

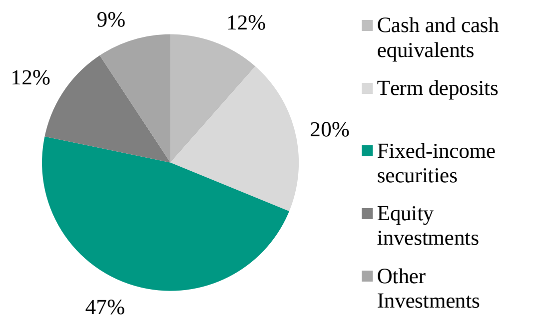
Source: Bloomberg, chinabonds.com.cn

China: est. price changes of government bonds (3Q11 – 2H12)

(%)	1 year	2 year	5 year	10 year
3Q11	(0.12)	(0.38)	(1.22)	(0.33)
4Q11	0.88	1.57	3.02	4.01
1Q12	(0.20)	(0.04)	(0.25)	(0.65)
2Q12	0.50	0.93	1.30	1.47
2H12	(0.50)	(1.33)	(1.63)	(2.05)

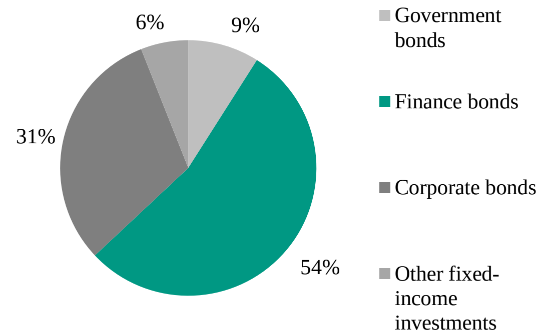
Source: Bloomberg, chinabonds.com.cn

PICCG: investment asset mix (2011)



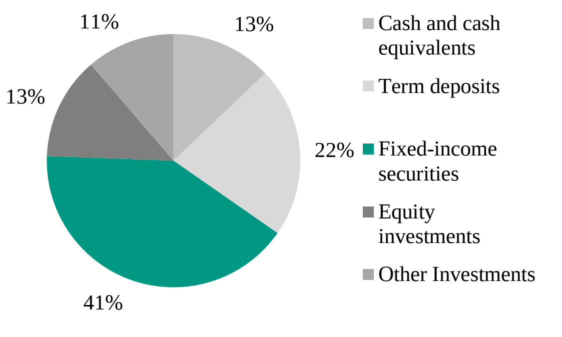
Source: PICCG

PICCG: fixed income investment mix (2011)



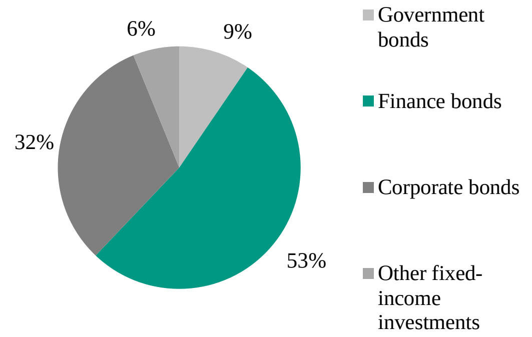
Source: PICCG

PICCG: investment asset mix (1H12)



Source: PICCG

PICCG: fixed income investment mix (1H12)



Source: PICCG

Corporate & Financial bonds adding mark-to-market gains to PICCG's EV

In reference to the breakdown of bond maturities, we estimate the impact from bond prices changes to PICCG's EV, book value and AFS reserves. We conclude that the improving corporate and financial bond prices year to date would add Rmb3.0bn to PICCG's EV or book value in 2012E. Such increment is equivalent to 4.2% of 1H12 group EV, 5.3% of 1H12 group book value and 47.9% of the negative AFS reserves (Rmb6.3bn) in 1H12. Therefore, we view the rise of bond prices a primary investment merit to PICCG in short term. With the continuously weakening economy and loosening liquidity towards, we believe financial and corporate bond prices may edge up further in 2013.

PICCG: est. impact on group EV, book value & AFS reserves from rises of bond price (2012 YTD / 3Q12 QTD)

(Rmb mn)	<3M	3M-1Y	1-5Y	5-10Y	>10Y	Total
Government bonds	55	914	12,082	6,706	7,981	27,738
Finance bonds	739	1,182	30,740	37,834	77,293	147,788
Corporate bonds	1,302	1,700	18,695	35,469	16,700	73,866
Fixed income securities	2,143	3,796	61,517	80,009	101,974	249,392
Increase in prices est. for 2012 YTD		49	783	981	1,219	3,033
% of group EV 1H12		0.1	1.1	1.4	1.7	4.2
% of group book value 1H12		0.1	1.4	1.7	2.1	5.3
% of AFS reserves (-ve) 1H12		0.8	12.4	15.5	19.2	47.9
Increase in prices est. for 3Q12 QTD		(2)	(67)	(140)	(198)	(407)
% of group EV 1H12		(0.0)	(0.1)	(0.2)	(0.3)	(0.6)
% of group book value 1H12		(0.0)	(0.1)	(0.2)	(0.3)	(0.7)
% of AFS reserves (-ve) 1H12		(0.0)	(1.1)	(2.2)	(3.1)	(6.4)

Source: PICCG, Bloomberg, chinabonds.com.cn

New policies of broadening investment channels

More investment vehicles for insurers overtime

As discussed, CIRC announced a new round of deregulation on insurance fund investments. In July 2012, the CIRC promulgated a series of new rules to further expand the scope of insurance funds deployment, including the Interim Measures on Bonds Investment with Insurance Funds (保險資金投資債券暫行辦法), the Interim Measures on the Administration of Entrusted Investment with Insurance Funds (保險資金委託投資管理暫行辦法), the Circular on Issues Concerning the Investment in Equity and Real Properties with Insurance Funds (關於保險資金投資股權和不動產有關問題的通知) and the Interim Measures for the Insurance Asset Allocation Management (保險資產配置管理暫行辦法). The CIRC is expected to continue introducing similar measures in the near future to, on the basis of effective risk management, further expand the scope and increase the categories of permitted investment for PRC insurance companies, increase the incentives and flexibility of insurance assets allocation, and further promote the marketization of regulation on insurance funds deployment.

Better-than-peers average net investment yields by PICCG

In our opinion, PICCG and its subsidiaries could improve investment yields through these new policies. PICCG reported an average net investment yields (4.50% in 1H12) than peers' average (4.37% in 1H12), mainly due to the deposit focused investment portfolio of PICC P&C. PICC P&C constituted 33.2% of PICCG's investment assets in 1H12. With relaxed rules on bond investments, PICCG can raise its recurring investment income or net investment yield through increasing asset allocation to non-guaranteed corporate bonds and infrastructure bonds.

Also, PICCG could participate in more private equity and real estate projects. These projects are long term in nature and this will facilitate better asset liability management. In 1H12, 11.3% of PICCG's total investment assets were apportioned in other investments. This segment could be further

Smoother return through hedging

expanded with less stringent regulations on these projects. Lastly, PICCG could smooth investment returns, attributed from the volatile A-share equity markets, through lending stocks for margin financing and equity hedging with derivatives. In 2011 and 1H12, PICCG reported an equity impairment loss of Rmb2.4bn and Rmb1.0bn respectively. This led to a negative drag of 70bps to gross investment yield in 2011. With the flexibility to short or hedge equity positions, PICCG could yield a more stable return from its equity portfolio.

PICCG set to benefit from new investment policies

All in all, PICCG will benefit substantially from these new investment policies, we believe. From 2009 to 1H12, PICCG expanded its investment assets at a CAGR of 39.0%. In 1H12, the company contributed 8.8% of China insurance's investment assets, higher than 6.3% in 2009. We estimate PICCG and its subsidiaries to be the major beneficiaries on the improving investment environment for China insurance.

Comparable investment performance against peers

4.5% net investment yield, topped the sector in 1H12

In 2009-1H12, PICCG reported comparable and higher investment yields to listed peers. Despite being dragged by PICC P&C, which allocated more funds in deposits and short duration bond investments, PICCG reported higher-than-average net investment yield of 4.30% in 2011 and 4.50% in 1H12. Such yield ranked the 2nd among peers, and led the peers' average of 4.37%. Regarding to gross investment yield, PICCG's was also better than its peers' average. The company recorded gross investment yields of 3.60% in 2011 and 4.50% in 1H12, ranked the 1th among peers. Such return was higher than the peers' average of 3.79%.

Life & Health portfolios rose at a CAGR of 58.6% since 2009

With higher-than-peers investment returns historically, we expect PICCG to continue outperforming peers in investment performance through the fast growing L&H investment portfolios. In fact, L&H portfolios grew at a CAGR of 58.4% since 2009, compared to 21.8% of industry average during the same period. Bond investments of L&H portfolios are usually at longer maturities, which in turn embed higher bond yields.

PICCG: net investment yield vs major peers

(%)	2009	2010	2011	1H12
China Life	3.69	3.90	4.28	4.48
Ping An	3.90	4.20	4.50	4.50
China Pacific	4.10	4.26	4.70	4.90
New China Life		3.80	4.10	4.40
Taiping Life	3.74	3.64	3.76	3.95
PICC P&C	3.00	3.19	3.82	3.86
PICCG	3.30	3.60	4.30	4.50
Average	3.62	3.80	4.21	4.37
PICCG Ranking	5	6	3	2

Source: PICC P&C, PICCG, annual reports

PICCG: gross investment yield vs major peers

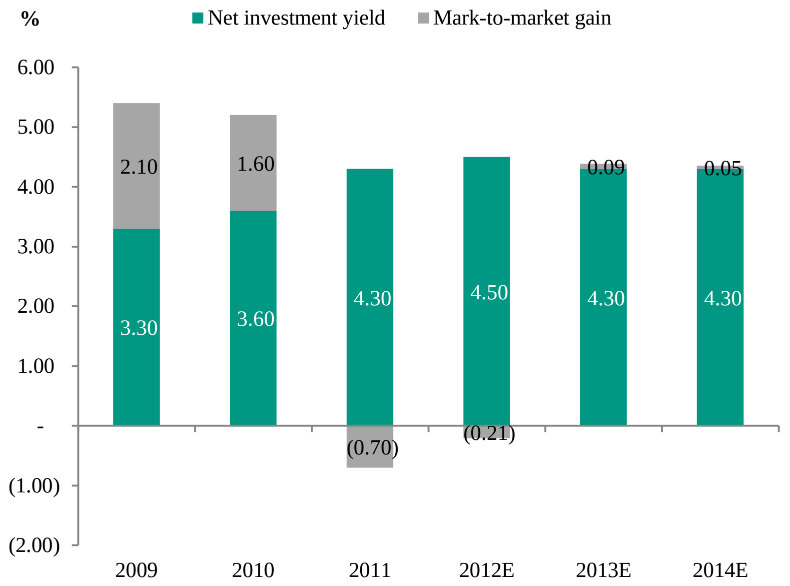
(%)	2009	2010	2011	1H12
China Life	5.84	5.18	3.51	2.83
Ping An	6.40	4.90	4.00	3.70
China Pacific	5.00	5.17	3.70	3.90
New China Life		4.30	3.80	3.60
Taiping Life	5.05	4.56	3.40	3.60
PICC P&C	4.80	3.90	2.21	4.40
PICCG	5.40	5.20	3.60	4.50
Average	5.42	4.74	3.46	3.79
PICCG Ranking	3	1	4	1

Source: PICC P&C, PICCG, annual reports

Per our forecast, PICCG will log gross investment yields of 4.29% in 2012E, 4.39% in 2013E and 4.35% in 2014E. By the same token, the company will report net investment yields of 4.50% in 2012E, 4.30% in 2013E and 4.30% in 2014E. While A-share markets bottomed out in early Dec 2012, we forecast some mark-to-market losses for PICCG in 2012E. On the other hand, *Forecasting mild MTM gains in 2013 and 2014, due to the bullish outlook of A-share markets*

we estimate net investment yields to edge higher this year, in light of the increasing allocation to corporate/ financial bonds and negotiated deposits. Lastly, with the rise of corporate/ financial bond prices in 2H12, PICCG's accounting profits may increase on the back of held-for-trading bonds. Also, we forecast mild mark-to-market gains in 2013 and 2014, in view of the bullish outlook of A-share markets.

PICCG: gross investment yield breakdown (2009 - 14E)



Source: PICCG, ABCI est.

PICC L&H more sensitive than peers to investment assumptions

As discussed, we subscribe to the idea of rebounding investment income for the China insurance sector in 2013. According to the actuarial disclosure, PICC L&H is more sensitive than peers to change of investment return assumptions. Therefore, we believe PICCG will have its valuation elevated the most, as compared to listed peers.

For every 50bps increase in investment return assumptions, PICC Life's value-in-force (VIF) will increase by 22.4% and its VNB will increase by 20.7%. By the same token, PICC Health's VIF will increase by 20.7% and its VNB will increase by 15.8%. These changes are bigger than 8.6%-19.7% of peers' VIF and 6.3%-17.1% of peers' VNB, under the same circumstance. As a result, we conclude PICC Life's and PICC Health's EV and VNB to be more sensitive to improving investment return than its listed peers. In turn, we are positive on PICCG in the upcoming investment upturn.

PICC Life & PICC Health: VIF & VNB sensitivity on investment return compared to major life peers (2011)

	PICC Life		PICC Health		China Life		Ping An		China Pacific		New China Life		Taiping Life	
	(Rmb mn)	Chg (%)	(Rmb mn)	Chg (%)	(Rmb mn)	Chg (%)	(Rmb mn)	Chg (%)	(Rmb mn)	Chg (%)	(Rmb mn)	Chg (%)	(Rmb mn)	Chg (%)
VIF	**11,513**		**2,200**		**182,588**		**96,181**		**41,611**		**27,025**		**18,314**	
Inv. Return Sensitivity														
+50bps	14,095	22.4	2,655	20.7	212,504	16.4	110,096	14.5	49,821	19.7	31,851	17.9	19,882	8.6
-50bps	8,959	(22.2)	1,718	(21.9)	153,084	(16.2)	81,251	(15.5)	33,293	(20.0)	22,191	(17.9)	16,722	(8.7)
Ranking	**1**		**2**		**5**		**6**		**3**		**4**		**7**	
VNB	**3,713**		**806**		**20,199**		**16,822**		**6,714**		**4,360**		**2,244**	
Inv. Return Sensitivity														
+50bps	4,480	20.7	933	15.8	22,612	11.9	17,875	6.3	7,494	11.6	5,106	17.1	2,550	13.6
-50bps	2,966	(20.1)	680	(15.6)	17,816	(11.8)	15,775	(6.2)	5,926	(11.7)	3,613	(17.1)	1,938	(13.6)
Ranking	**1**		**3**		**5**		**7**		**6**		**2**		**4**	

Source: PICC P&C, PICCG, annual reports of China Life, Ping An, China Pacific, New China Life and China Taiping

Well-balanced integrated insurer in China

Growth from L&H, Value from P&C

We view PICCG the most balanced integrated insurer, among its listed Chinese peers. Firstly, its operation mix bodes a balanced growth prospects for PICCG in the coming years. Its L&H operations are situated in the infant stage of business development. Therefore it could deliver growth through new premium mix restructuring, and be exempt from the adverse impact of stagnant L&H markets at present. Its P&C operation is unchallenged in its market leadership, and forms a formidable oligopoly with Ping An P&C and China Pacific P&C in the market. In 2011 and 1H12, top three market leaders contributed 66% of market share in P&C premiums.

Fast growth in cross-selling going forward

Secondly, PICCG and its subsidiaries have developed strong cross-selling capability. In 1H12, cross-selling contributed 5.6% for the group GWP (15.3% for L&H GWP and 1.1% for P&C GWP). This is considerably lower than 7.8% of Ping An Group. From 2009 to 2011, cross-selling revenue expanded to Rmb10.6bn, at a CAGR of 36.4%. Assuming a similar growth trajectory, we forecast the group can further explore the potential and enhance cross-selling premiums at a CAGR of 30% in 2012-14E.

Better mix than peers on profits and EV

Lastly, PICCG offers better profit and value proposition than other listed integrated insurers in China. Its L&H operations embed huge growth potential, due to its pre-mature stage of business development. Therefore it would offer faster growth than mature life operations, such as Ping An Life, China Pacific Life and Taiping Life. On the other hand, its P&C operations, situated at a sweet spot of underwriting cycle, would deliver a stable and lucrative ROE of 21.9-26.1% as per our forecast. In 2011, this unit constituted 90% of group net profits. In our opinion, PICCG's operation mix outshines its peers', in terms of both profit prospect and valuation appeal, in the meantime.

Prospects for a balanced growth

Gradually less profit contribution from P&C but more from L&H

In our view, PICCG has a balanced growth prospects in 2012-14E. In 2013E, we forecast its P&C operations to generate 75.0% of group net profits and its L&H operations to contribute 23.6%. We project this mix to offer a promising outlook for the group in the future.

Forecasting a profit CAGR of 48.6% for L&H till 2014E

PICC Life's ROE was at 5.7% and PICC Health reported negative ROE in 2011. The L&H insurance industry faced stagnant growth during the year, with negative sector premium growth (-9.0% YoY) and feeble investment yields (average 3.46%, -1.28ppt YoY). Going forward, we expect the industry to continue reporting weak premium growth. But PICC L&H could outgrow the industry in profitability, through continuous restructuring in new premium mix and expanding investment asset base. We estimate its profit growth to reach a CAGR of 48.6% from 2010 to 2014E.

Forecasting an average ROE of 25.7% for P&C in 2012-14

On the other hand, PICC P&C is a mature and lucrative operation, with ROEs of 21.5% in 2010 and 26.0% in 2011. By assuming stabilized combined ratios and recovery in investment income, we forecast the unit to deliver an average ROE of 25.7% in 2012-14E. In respect to our forecast on both L&H and P&C, PICCG will increase its profits at a CAGR of 33.8% during the same period.

PICCG: segmental fair value, Group EV & net profits breakdown (2013E)

(%)	Fair Value	Group EV	Group profits	Comments
PICC Life	27.75	25.26	15.96	Young operations boding for improving product mix & expanding NBM
PICC Health	7.70	4.54	2.81	Largest health operations in China with potential in NBM expansion and policy blessing
PICC P&C (2328)	51.03	44.10	79.60	Most profitable P&C in China & Asia, at a sweet spot in underwriting cycle
Asset mgt business	7.16	12.67	7.41	Investment arm of PICCG, well positioned for the inflection point of equity and debt markets
HQ & Eliminations	6.36	13.44	(5.78)	Operation arms in real estate & private equity investments and trust business
Rmb mn	176,597	83,506	14,537	Fair value: 2.11x group PEV & 17.4x 2013E PER

Source: PICCG, ABCI est.

More value contribution from L&H overtime

In terms of valuation, we estimate the group appraisal value, or fair value, of PICCG at Rmb176.6bn in 2013E, with L&H contributing 35.5%, P&C contributing 51.0% and others contributing 13.5%. Correspondingly, PICC Life and PICC Health will grow profits, VNB and EV exponentially in 2012-14E. Other businesses will enjoy a relatively fairer growth, due to its matured business nature. PICCG's valuation mix reflects adequately different growth prospects for the two segments. In summary, we regard this mix a balanced one, with its operations offering both growth, i.e. L&H, and value, i.e. P&C.

Less premium contribution from Life, due to slow sales trend in banc.

Regarding to premium income, we forecast Health and P&C to contribute higher portions of group GWP and NEP going forward. On the other hand, we estimate Life to contribute less of the group premiums in 2012-14E, as compared to 2009-11. Per our forecast, PICC Life will report Rmb83.8bn of GWP and Rmb83.3bn of NEP in 2014E, representing 24.1% and 27.7% of group total respectively. This is compared to 28.3% of group GWP and 34.0% of group NEP reported in 2011. Per our estimates, PICC Life will grow its GWP at a CAGR of 10.2% in 2012-14E. We assumed a slower growth rate in premiums mainly because of the deteriorating bancassurance sales expected in the coming three years. At the same time, we forecast PICC Life to focus its sales efforts in individual regular premium sales.

More premium contribution from Health, due to favorable national policy

Blessed by the national policy, we expect PICC Health to have higher contribution to group premiums in 2012-14E. Per our forecast, the unit will report Rmb13.6bn of GWP and Rmb8.1bn o NEP in 2014E, representing 3.9% and 2.7% of group total respectively. This is compared to 1.9% of group GWP and 1.3% of group NEP reported in 2011. Supported by the "Zhanjiang Model" and the national target of 800mn population covered with medical insurance, we forecast PICC Health to grow its premiums at a CAGR of 43.7% in 2012-14E.

More premium contribution from P&C, due to better car sales and flourishing agricultural insurance

Lastly we estimate PICC P&C to constitute higher portion of group premiums in 2012-14E. Per our forecast, the subsidiary will report Rmb250.5bn in GWP and Rmb209.6bn in NEP in 2014E, representing 71.2% and 69.6% of group total respectively. This is compared to 69.9% of group GWP and 64.7% of group NEP reported in 2011. We estimate PICC P&C will grow its GWP at a CAGR of 12.9% in 2012-14E. This is partly resulted from our double-digit growth assumption for passenger car sales, and fast growth in agricultural premiums as guided in the 12th Five Year Plan.

We forecast a balanced and healthy segmental premium growth for 2012-14E. In accordance, PICC Life will further restructure new premium mix and improve profitability by product line, in spite with a slower-than-group average growth in premiums. PICC Health and PICC P&C will deliver relatively faster volume growth during the same period.

PICCG: gross written premiums (GWP) breakdown (2009 - 14E)

(Rmb mn)	2009	2010	2011	1H12	2012E	2013E	2014E
PICC Life	46,567	72,127	70,361	42,667	68,954	76,194	83,813
PICC Health	2,070	2,863	4,596	5,303	8,951	10,940	13,633
PICC P&C (2328)	119,920	154,451	174,089	101,255	195,111	217,645	250,493
PICCG Total	168,557	229,441	249,046	149,225	273,015	304,778	347,939
(% of total)							
PICC Life	27.63	31.44	28.25	28.59	25.26	25.00	24.09
PICC Health	1.23	1.25	1.85	3.55	3.28	3.59	3.92
PICC P&C (2328)	71.15	67.32	69.90	67.85	71.47	71.41	71.99

Source: PICCG, ABCI est.

PICCG: net earned premium (NEP) breakdown (2009 - 14E)

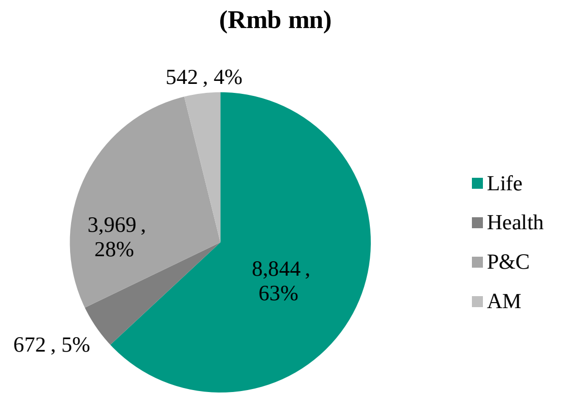
(Rmb mn)	2009	2010	2011	1H12	2012E	2013E	2014E
PICC Life	46,381	71,895	70,110	42,510	68,609	75,796	83,318
PICC Health	1,799	1,641	2,682	2,913	5,321	6,504	8,105
PICC P&C (2328)	93,382	123,549	133,559	66,418	145,579	174,695	209,634
PICCG Total	141,562	197,085	206,351	111,841	219,509	256,995	301,057
(% of total)							
PICC Life	32.76	36.48	33.98	38.01	31.26	29.49	27.68
PICC Health	1.27	0.83	1.30	2.60	2.42	2.53	2.69
PICC P&C (2328)	65.97	62.69	64.72	59.39	66.32	67.98	69.63

Source: PICCG, ABCI est.

Life contributed the most investment income due to its asset size

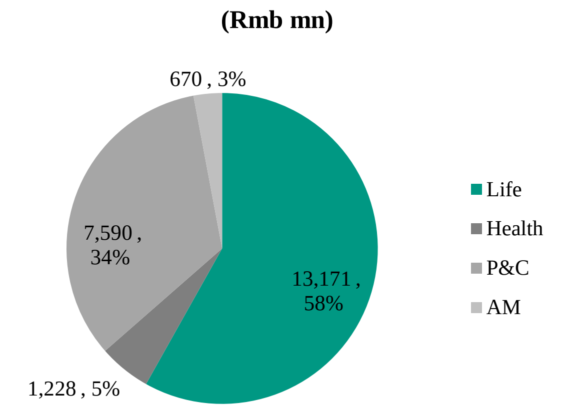
In respect to investments, we forecast PICC P&C to contribute higher portion of income in 2012E, than that in 2011. In the past, PICC P&C was limited to investment in short duration government, corporate and financial bonds. With the broadening investment channels by CIRC, PICC P&C could improve its investment yield by a bigger margin than other group companies. In 2012E, we estimate PICC P&C to report investment income of Rmb7.6bn (34% of group total) in 2012E, compared to Rmb13.2bn (58% of group total) of PICC Life and Rmb1.3bn (5% of group total) of PICC Health. PICC Asset Management will contribute Rmb670mn (3% of group total) of investment income in the same year, per our forecast. In 2011, 90% of the unit's asset under management (AUM) was entrusted by PICCG companies. Respectively, we regard PICC Asset Management as an important entity to the group. In a nut shell, we forecast a more balanced mix of investment income sources for PICCG in 2012E, as compared with that in 2011.

PICCG: investment income breakdown (2011)



Source: PICCG, ABCI est.

PICCG: investment income breakdown forecast (2012E)



Source: ABCI est.

Cross selling capability delivering revenue synergies

As an integrated insurer, PICCG bodes cross-selling capability among different insurance products, just like Ping An and China Pacific do. Hence we view cross-selling one of the key investment merits for the company.

Cross selling premiums grew at a CAGR of 36.4% since 2009

From 2009 to 2011, cross-selling premiums continued to grow for PICCG. In 2011, the company's cross-selling premium income reached Rmb10.6bn, with Rmb1.6bn of P&C premiums sold through L&H channels and Rmb9.0bn of L&H premiums sold through P&C channels. Cross-selling premiums increased at a CAGR of 36.4% since 2009. In 2011, these premiums contribute 4.3% of group GWP, as compared to 3.4% in 2009. This level of contribution lagged 14.9% of Ping An, the largest financial conglomerate in China, in the same year.

Key is L&H premium sales by P&C channels

As the leading P&C insurer in China, PICC P&C is capable of cross-selling many P&C customers on its L&H products. From 2009 to 2011, cross-selling L&H premiums through P&C channels rose at a CAGR of 50.4% from Rmb4.0bn to Rmb9.0bn. Such premiums reached Rmb7.3bn in 1H12. In the same half, the unit has 169,300 individual P&C agents, 13,400 branches / outlet and 37,200 in-house sales nationwide. This was the largest distribution network for P&C insurance products in the country. On top, PICC L&H employed 14,200 cross-selling specialists. Correspondingly, we expect PICCG to further strengthen the cross-selling efforts from P&C to L&H in 2012-14E. Based on our assumption of a similar growth trajectory as in 2009-11, cross-selling L&H premiums will grow at a CAGR of 30.1% in 2012-14E. We estimate these premiums to reach Rmb19.8bn, or 21.8% of total L&H GWP, in 2014E.

P&C premium sales thru L&H channels still low

PICC L&H started business operations in 2006. Given it short history, the cross-selling capability of P&C premiums through L&H channels is yet to be developed. In 2011, cross-selling P&C premiums amounted to Rmb1.6bn, or merely 0.9% of total P&C GWP. Such premiums reached Rmb1.1bn in 2H12. However, with the constantly expanding L&H distribution network, we expect cross-selling of P&C products to flourish in 2012-14E. In 1H12, PICC L&H has 120,400 individual agents, 2,200 branches / outlets and 108,700 cooperative bank branches. Besides, cross-selling capability has been beefed up by new development in telemarketing. Meanwhile, this new channel has been extensively employed by Ping An P&C and China Pacific P&C. Consequently, we expect the cross-selling efforts from L&H to P&C to be further strengthened in 2012-14E. Per our forecast, cross-selling P&C premiums will grow at a CAGR of 30.0% in 2012-14E. We estimate these premiums to reach Rmb3.5bn, or 1.4% of total P&C GWP, in 2014E.

Forecasting more sales contribution from cross-selling

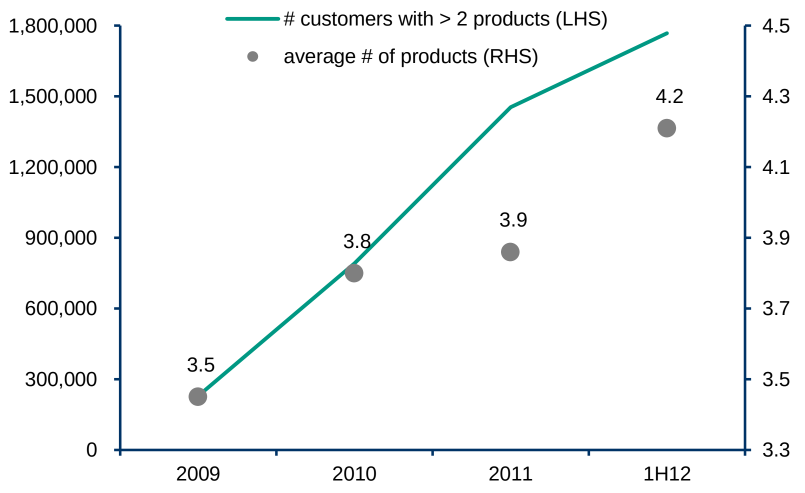
In summary, PICCG will grow its cross-selling premiums to Rmb23.3bn in 2014E, as compared to Rmb10.6bn in 2011, according to our forecast. This constitutes 6.6% of group GWP, higher than 4.3% in 2011. We view the cross-selling capability as one of the key drivers for PICCG, as a leading integrated insurer in China.

PICCG: cross-selling premiums (2009-1H12)

(Rmb mn)	L&H to P&C	% of P&C GWP	P&C to L&H	% of L&H TWP	% of L&H GWP
2009	1,726	1.44	3,965	6.80	8.15
2010	NA	NA	7,026	7.60	9.37
2011	1,609	0.92	8,977	9.50	11.98
1H12	1,095	1.08	7,319	12.80	15.26

Source: PICCG

PICCG: cross-selling customers & average number of products purchased by these customers (2009-1H12)



Source: PICCG

Best positioned in operation mix among peers

PICCG with better profit mix than peers

In our opinion, PICCG offers better prospects on profits than three other listed integrated insurers, based on its current operation mix. Per the segmental profit breakdown, PICCG delivered most of group profits from P&C operations (Rmb8.1bn or 102.1% of group) in 2011. This mix will facilitate the company's outperformance against peers in profit growth.

PICCG not relying on Life profits

Firstly, life insurance industry has been undergoing a tough time in China. Premium growth was held back by a stagnant growth in the number of individual agents and declining bancassurance sales, partly due to tighter regulation announced in Nov 2010. The life industry has not yet recovered so far in 2012. In 2011, Ping An, China Pacific and China Taiping all relied heavily on life operations for profit contribution. Life profit contribution to group reached 44.2% for Ping An, 37.5% for China Pacific and 84.9% of China Taiping. In other words, their group profit growth will be largely compromised due to the weakening industry trend in 2012. PICCG, on the other hand, will suffer less from the stagnancy in life industry, with only 7.0% group profits contributed from life in 2011.

PICC P&C forms a solid profit base during the Life downturn

Secondly, P&C industry has been experiencing a turnaround since 1H10. In 2011, PICCG derived most of its group profits (102.1% before eliminations) from P&C. Top three P&C insurers reported at least 20% ROE in China. PICC P&C recorded a ROE of 26.0%, versus 25.1% of Ping An P&C and 20.0% of China Pacific P&C. Its underwriting margins, excluding investment yield, reached 6.0%. Despite being hammered by slower car sales, we estimate PICC P&C to report profits of Rmb10.3bn, up 28% YoY, in 2012E. This operation can provide capital essential for the growth of L&H operations, which is still in an infant stage of business development. On other hand, the current operation mix of PICCG implies a positive profit outlook in 2012-14E, supported by a solid profit base from its P&C operations.

PICCG: segment profit mix versus peers (2011)

PICCG	**(Rmb mn)**	**% of ttl**	**Ping An**	**(Rmb mn)**	**% of ttl**
Life	551	7.0	Life	9,974	44.2
Health	(482)	(6.1)	P&C	4,979	22.0
P&C	8,065	102.1	Banking	7,977	35.3
AM	680	8.6	Securities & Others	1,604	7.1
HQ & Eliminations	(917)	(11.6)	HQ & Eliminations	(1,952)	(8.6)
Group net profits	7,897	100.0	Group net profits	22,582	100.0
China Pacific	**(Rmb mn)**	**% of ttl**	**China Taiping**	**(HK$ mn)**	**% of ttl**
Life	3,121	37.5	Life	781	84.9
P&C	3,747	45.1	P&C	498	54.2
HQ & Eliminations	1,445	17.4	Reinsurance	(94)	(10.2)
Group net profits	8,313	100.0	Other businesses	(265)	(28.8)
			Group net profits	920	100.0

Source: PICCG, annual reports of Ping An, China Pacific and China Taiping

PICCG: segment profit mix versus peers (1H12)

PICCG	**(Rmb mn)**	**% of ttl**	**Ping An**	**(Rmb mn)**	**% of ttl**
Life	912	12.8	Life	7,031	40.1
Health	(297)	(4.2)	P&C	2,746	15.7
P&C	6,576	92.0	Banking	6,731	38.4
AM	253	3.5	Securities & Others	1,019	5.8
HQ & Eliminations	(300)	(4.2)	HQ & Eliminations	-	-
Group net profits	7,144	100.0	Group net profits	17,527	100.0
China Pacific	**(Rmb mn)**	**% of ttl**	**China Taiping**	**(HK$ mn)**	**% of ttl**
Life	1,041	39.7	Life	789	80.2
P&C	1,543	58.8	P&C	317	32.2
HQ & Eliminations	39	1.5	Reinsurance	(76)	(7.7)
Group net profits	2,623	100.0	Other businesses	(47)	(4.8)
			Group net profits	983	100.0

Source: PICCG, annual reports of Ping An, China Pacific and China Taiping

Furthermore, PICCG offers better valuation appeal than its peers, based on its group EV mix in 2011. As discussed in earlier sections, life insurance industry is undergoing stagnancy in premium underwriting. To add, the life

PICC L&H still in infant stage, set to generate more value

operations of other integrated life insurers are situated in a more mature stage, with over 10 years history in operations. The potential for further premium mix improvement is relatively more limited for them going forward. PICC L&H is different, boding substantial room for improvement in premium mix and NBM expansion. Therefore, PICC L&H, while contributing only 42.4% of PICCG's group EV in 2011, could deliver faster-than-peers EV and VNB growth in the future.

Peers' Life units are in a mature stage of development

In contrast, life EV contributed heavily to the group EVs of Ping An (55.5%), China Pacific (82.6%) and China Taiping. (63.2%) in 2011. Moreover as discussed, these operations may underperform PICC Life and PICC Health in EV and VNB growth, due to their mature stage of business development.

PICC P&C a stable and solid value contributor, with significant contribution

In 2011, PICC P&C constituted 58.6% of group EV. Per our forecast, the operation would deliver a stable growth to group EV, relative to the L&H operations. At present, the P&C industry is situated at a sweet spot of underwriting. But the peers of PICCG had relatively lower contribution from P&C to group EVs. In 2011, Ping An P&C constituted 8.6% of group EV, versus 17.4% of China Pacific P&C and 36.8% of Taiping Insurance (P&C arm of China Taiping). That said, the peer's life operations would drag their group EV growth. However, their P&C operations do not have meaningful contributions to group EVs, as reflected in 2011. Ping An may face more challenges, with a sizable stake (52.4%) in Shenzhen Development Bank and Ping An Securities (86.7%). Both of them are currently amid the cyclical industry downturn

PICCG: group embedded value mix versus peers (2011)

PICCG	**(Rmb mn)**	**% of ttl**	**Ping An**	**(Rmb mn)**	**% of ttl**
Life EV	22,685	37.6	Life EV	144,400	55.5
Health EV	2,907	4.8	P&C BV	22,274	8.6
P&C BV	35,331	58.6	SDB BV	32,567	12.5
AM BV	8,445	14.0	Financial Service BV	25,321	9.7
HQ & Eliminations	(9,097)	(15.1)	Corp BV	35,527	13.7
Group EV	60,271	100.0	Group EV	260,088	100.0
China Pacific	**(Rmb mn)**	**% of ttl**	**China Taiping**	**(HK$ mn)**	**% of ttl**
Life EV	113,564	82.6	Life EV	10,798	63.2
P&C BV	23,984	17.4	P&C + Reinsurance BV	6,276	36.8
Group EV	137,548	100.0	Group EV	17,074	100.0

Source: PICCG, annual reports of Ping An, China Pacific and China Taiping

PICCG: group embedded value mix versus peers (1H12)

PICCG	(Rmb mn)	% of ttl	Ping An	(Rmb mn)	% of ttl
Life EV	28,632	39.8	Life EV	156,198	60.3
Health EV	3,378	4.7	Others' BV	102,807	39.7
P&C BV	43,951	61.1	Group EV	259,005	100.0
AM BV	5,794	8.1			
HQ & Eliminations	(9,866)	(13.7)			
Group EV	71,889	100.0			
China Pacific	**(Rmb mn)**	**% of ttl**	**China Taiping**	**(HK$ mn)**	**% of ttl**
Life EV	97,279	79.8	Life EV	12,920	65.3
P&C BV	24,554	20.2	P&C + Reinsurance BV	6,860	34.7
Group EV	121,833	100.0	Group EV	19,780	100.0

Source: PICCG, annual reports of Ping An, China Pacific and China Taiping

In conclusion, PICCG offers the best operation mix against listed peers of integrated insurers in China. It provides better prospects on profit and group EV growth, due to its still-young L&H operations and sizable P&C contribution to group EV.

Valuation & Recommendation

2013E EV estimates fell on the middle of consensus range

In 2011, PICC Group reported its Group EV at Rmb42.4bn, with Rmb18.8bn contributed by the attributable EV from Life & Health, Rmb24.3bn contributed by the attributable book value from P&C, and the rest contributed by asset management and headquarter resources. We believe that there will be good underwriting performance and mild investment gains in 2012 and 2013. Also, PICC Group just raised Rmb21.7bn from its H-share IPO in Dec 2012. Therefore we forecast its group EV to reach Rmb74.3bn (including IPO proceeds) in 2012 and 83.5bn in 2013. Our 2013E fell at the middle of the market consensus range (from Rmb76.2bn to Rmb106.4bn).

Higher than consensus earnings forecast in 2012 and 2013

On the other hand, based on total premium growth of 9.6% YoY and gross investment yield of 4.29%, we estimate PICC Group will report net earnings of Rmb9.8bn in 2012. This is 30.7% higher than the Bloomberg consensus earnings of Rmb7.5bn. For 2013, based on total premium growth of 11.6% YoY and gross investment yield of 4.39%, we forecast that net earnings will reach Rmb10.2bn. This is 6.3% higher than the Bloomberg consensus earnings of Rmb9.6bn. Our forecast earnings are higher than consensus due to the higher investment assumptions we adopted for PICC Group and its subsidiaries.

Toppish ROEs among peers

Accordingly, we forecast PICC Group to report ROEs of 21.1% in 2012 and 15.5% in 2013. Such level of ROEs topped the sector in our forecast. With the improving Life and Health underwriting results, stable P&C combined ratios and bullish investment outlook towards end-2012 and the year of 2013, we are confident of PICCG's earnings prospects.

Initiate coverage with a BUY rating; our TP implied 18.2% upside potential

Based on our financial forecasts and actuarial assumptions, we derive group appraisal value of Rmb176.6bn in 2013 and adopt it as our target price. We appraised PICC Life at Rmb49.0bn, or 2.32x 2013E PEV and 9.1x 2013E VNB, on an attributable basis. Also, we derived a valuation of PICC Health at Rmb13.6bn, or 3.59x 2013E PEV and 9.8x 2013E VNB, on an attributable basis. For the valuation of PICC P&C, we valued it at Rmb90.1bn, or 2.45x 2013E PBV and 10.8x 2013E PER, on an attributable basis. This is the result of our Gordon Growth Model. For PICC Asset Management, we appraised it at Rmb12.7bn, or 1.2x 2013E PBV concluded from the comparable analysis. Lastly, we valued HQ & eliminations at book according to our financial forecast for 2013. As such, our TP is equivalent to HK$5.29/share. In 2013E, we forecast GEVPS and L&H VNB of HK$2.50 and HK$0.12, respectively. The implied valuation of our TP is 2.11x 2013E PEV, 9.3x 2013E VNB and 17.4x 2013E PER. This represents a 18.2% upside from the current share price. We initiate coverage of PICC Group with a BUY recommendation.

PICC Group: Group Embedded Value

(Rmb mn)	2011	2012E	2013E	2014E
Life (71.1%) + Health (90.18%) EV				
Adjusted net worth	8,581	13,887	16,593	20,136
Value of in-force	10,978	10,132	9,192	7,515
Cost of solvency margin	(808)	(809)	(901)	(985)
Embedded value	18,751	23,209	24,883	26,665
Life + Health EV Movement Analysis				
Beginning EV	13,119	18,751	23,209	24,883
New business contribution	3,577	3,615	4,312	4,974
Expected return	1,073	1,591	1,742	1,795
Non-economic operating experience variance	(1,537)	(2,006)	(2,382)	(2,488)
Economic operating experience variance	(6,779)	(3,198)	(3,213)	(3,857)
Non-economic assumption changes	225	245	265	286
Economic assumption changes	449	485	519	555
Capital change and market value adjustment	8,625	3,726	431	517
Ending EV	18,751	23,209	24,883	26,665
Life + Health EV contribution				
Beginning EV	70%	81%	93%	93%
New business contribution	19%	16%	17%	19%
Expected return	6%	7%	7%	7%
Non-economic operating experience variance	-8%	-9%	-10%	-9%
Economic operating experience variance	-36%	-14%	-13%	-14%
Non-economic assumption changes	1%	1%	1%	1%
Economic assumption changes	2%	2%	2%	2%
Capital change and market value adjustment	46%	16%	2%	2%
Ending EV	100%	100%	100%	100%
P&C (69.98%) attributable book value	24,253	30,748	36,822	43,668
Asset management book value	8,445	9,344	10,577	11,868
HQ & Eliminations	(9,097)	10,981	11,223	12,042
Group Embedded Value (Rmb mn)	42,352	74,282	83,506	94,244
YoY Growth (%)		75%	12%	13%
EVPS (Rmb)	1.23	1.76	1.98	2.23
EVPS (HK$)	1.50	2.19	2.50	2.87
Attr VNB (Rmb mn)	3,367	3,410	4,066	4,691
YoY Growth (%)		1%	19%	15%
Attr VNB (Rmb)	0.10	0.08	0.10	0.11
Attr VNB (HK$)	0.12	0.10	0.12	0.14
Attr VNB Multiple	15.80	11.13	4.16	(1.39)
Attr P&C valuation (P/B)	2.45	2.45	2.45	2.45
Asset Management valuation (P/B)	1.20	1.20	1.20	1.20
HQ & Eliminations at book	1.00	1.00	1.00	1.00
Group Appraisal Value (Rmb mn)	119,509	158,678	176,597	196,498
AVPS (Rmb)	3.46	3.76	4.18	4.65
AVPS (HK$)	4.22	4.67	5.29	5.99
PEV Implied	2.82	2.14	2.11	2.08
VNB (x) Implied	12.00	11.16	9.28	7.83

Source: Company data, ABCI Securities estimates

PICC P&C Gordon Growth Model

Implied ROE		22.7%	23.2%	23.7%	24.2%	24.7%
Long term dividend payout ratio (k)	64.0%					
Market risk free rate (Rf)	3.6%					
Market risk premium (Rm)	11.6%					
Stock beta (B)	0.96					
Cost of Equity (CoE= Rf + Rm * B)	14.7%					
Long term sustainable growth (g)	8.5%					
Discount rate (CoE - g)	6.2%					
Target Price to Book Value (ROE * k) / (CoE - g)		2.34	2.39	2.45	2.50	2.55
2013E BVPS (HK$)	5.51					
Est. "Fair" Price YE2013		12.92	13.20	13.48	13.77	14.05
Target Price YE2013 based on DDM				**13.48**		

Source: Company data, ABCI Securities estimates

CH INS: Sector valuation summary

Name	China Life			Ping An			China Pacific			New China Life			China Taiping			PICC Group		
Stock code	2628.hk			2318.hk			2601.hk			1336.hk			966.hk			1339.hk		
Share Price (HK$)	26.00			66.95			31.10			31.45			15.58			4.67		
ABCI Rec.	BUY			SELL			BUY			HOLD			BUY			BUY		
Target Price (HK$)	31.89			68.46			36.46			34.30			18.36			5.29		
Upside / Downside (%)	24.32			(0.28)			18.75			16.08			18.45			18.17		
	2011	2012E	2013E	2011	2012E	2013E	2011	2012E	2013E	2011	2012E	2013E	2011	2012E	2013E	2011	2012E	2013E
EVPS (HK$)	12.61	15.62	18.32	36.24	45.87	53.84	16.08	19.39	21.90	19.1	24.18	29.38	9.96	12.29	14.49	1.50	2.19	2.50
YoY Growth (%)	0.37	23.85	17.25	15.65	26.56	17.40	5.39	20.60	12.94	(31.3	26.34	21.51	7.78	23.41	17.90		46.32	14.44
VNB (HK$)	0.87	0.92	1.00	2.67	2.48	2.51	0.93	0.98	1.06	1.70	1.74	1.82	0.69	0.72	0.78	0.12	0.10	0.12
YoY Growth (%)	4.02	5.48	9.03	10.33	(7.05)	1.11	12.45	5.14	7.67	(63.8	1.89	4.61	28.22	4.41	8.17		(15.5	21.39
NBM (APE basis - %)	33.86	38.00	37.00	40.67	37.00	35.00	34.19	37.50	37.00	22.3	23.50	23.00	27.87	30.00	29.50	6.47	6.26	7.01
Gross Inv't Yield (%)	3.52	3.48	4.55	3.59	3.49	4.79	3.43	3.64	4.62	3.83	3.87	4.43	3.42	3.50	4.17	3.60	4.29	4.39
APE Growth (%)	(9.58)	(8.00)	10.00	(2.88)	0.00	5.00	(6.29)	(2.00)	10.00	(22.9	(5.00)	5.00	(19.00	(3.00)	10.00	(3.54)	3.81	6.72
PEV (x)	2.03	1.64	1.40	1.89	1.50	1.27	1.91	1.58	1.40	1.54	1.22	1.01	1.56	1.26	1.07	3.00	2.05	1.79
VNB (x)	14.98	10.92	7.33	12.15	9.19	5.91	12.02	7.81	4.54	6.11	3.10	0.09	8.04	4.46	1.29	14.20	9.24	2.60
PER (x)	32.48	44.53	17.77	22.92	16.54	12.28	26.09	31.06	25.75	19.5	20.49	15.90	53.48	18.96	14.74	24.48	15.53	14.69
PBV (x)	2.50	2.21	1.97	2.61	2.15	1.84	3.38	2.81	2.66	2.41	1.98	1.71	2.32	1.48	1.29	4.05	2.48	2.13

Source: Bloomberg, Company data, ABCI Securities

PICC Group: share price performance against peers & benchmarks

Company	Stock code	Current (HK$)	3-Dec	4-Sep	24-Jul	5-Jun	29-Feb	25-Nov	4-Oct
China Life	**2628.hk**	25.7	22.5	20.9	20.9	17.1	24.2	19.3	17.2
Ping An	**2318.hk**	68.7	57.9	55.1	59.3	53.9	67.9	52.0	38.7
China Pacific	**2601.hk**	30.7	24.8	22.9	24.9	21.7	28.0	21.7	20.2
New China Life	**1336.hk**	29.6	23.8	21.7	24.0	29.4	34.2	25.7	-
PICC P&C	**2328.hk**	11.5	9.9	8.8	8.3	8.0	10.9	10.0	7.8
PICC Group	**1339.hk**	4.5	3.5						
China Taiping	**966.hk**	15.5	12.8	10.6	11.4	11.7	18.1	14.5	13.9
Hang Seng Index	**HS I**	23,580	21,768	19,145	18,877	18,185	21,680	17,682	16,250
MSCI China	**MXCN**	65.2	59.2	54.9	52.0	51.7	62.5	50.9	44.7

Company	Versus MXCN	Versus HSI	From Dec 3 Low	From Sep 5 Low	From Jul 12 Low	From Jun 12 Low	From Feb 12 High	From Nov 11 Low	From Oct 11 Low
China Life	Outperform	Outperform	14.0%	23.0%	23.0%	50.2%	6.0%	32.6%	48.8%
Ping An	Outperform	Outperform	18.7%	24.6%	15.9%	27.4%	1.2%	32.0%	77.6%
China Pacific	Outperform	Outperform	24.0%	34.4%	23.3%	41.8%	9.8%	41.5%	52.4%
New China Life	Outperform	Outperform	24.4%	36.2%	23.4%	0.5%	-13.6%	15.2%	
PICC P&C	Outperform	Outperform	16.3%	30.2%	38.4%	43.6%	5.1%	14.8%	47.1%
PICC Group	Outperform	Outperform	28.7%						
China Taiping	Outperform	Outperform	21.3%	46.8%	36.0%	32.5%	-14.5%	6.9%	11.5%
Sector simple av.	Outperform	Outperform	21.1%	32.5%	26.7%	32.7%	-1.0%	23.8%	47.5%
Big three av.	Outperform	Outperform	18.9%	27.3%	20.7%	39.8%	5.7%	35.4%	59.6%
Hang Seng Index			8.3%	23.2%	24.9%	29.7%	8.8%	33.4%	45.1%
MSCI China			10.3%	18.8%	25.3%	26.2%	4.4%	28.2%	45.8%

Source: Bloomberg, ABCI Securities estimates

PICC Group: Financial Statements

Profit & loss (Rmb mn)	2010	2011	2012E	2013E	2014E
GWP & policy fees	**229,440**	**249,047**	**273,015**	**304,778**	**347,939**
(-) Premiums to reinsurers	**(18,155)**	**(39,200)**	**(46,643)**	**(37,230)**	**(43,338)**
NWP & policy fees	**211,285**	**209,847**	**226,373**	**267,549**	**304,602**
Chg. in unearned premium res.	**(14,204)**	**(3,499)**	**(6,863)**	**(10,553)**	**(3,544)**
NEP & policy fees	**197,081**	**206,348**	**219,509**	**256,995**	**301,057**
Investment income	14,205	13,799	22,323	27,324	32,091
Reins. Comm. + Other income	8,570	16,144	18,554	16,538	19,385
Total revenue	**219,856**	**236,291**	**260,387**	**300,857**	**352,534**
Total Claims / PH Benefits	155,606	160,287	172,308	201,698	234,615
Commission and brokerage expenses	17,268	18,109	19,089	21,599	25,898
Administrative expenses	36,497	43,424	46,825	53,803	62,968
Finance & Forex charges	3,698	5,089	5,575	6,678	7,851
Total Operating Expenses	**213,069**	**226,909**	**243,797**	**283,779**	**331,332**
Associate / JV - Profits / Losses	741	828	889	966	1,065
Net profit before tax	**7,528**	**10,210**	**17,479**	**18,045**	**22,267**
Tax expense	(1,681)	(2,313)	(3,482)	(3,508)	(4,513)
Net profit after tax	**5,847**	**7,897**	**13,997**	**14,537**	**17,754**
Minority interest	(1,860)	(2,712)	(4,199)	(4,361)	(5,326)
NP to PICCG shareholders	**3,987**	**5,185**	**9,798**	**10,176**	**12,428**

Financial summary	2010	2011	2012E	2013E	2014E
EPS (HK$)	**0.16**	**0.18**	**0.29**	**0.31**	**0.38**
EPS growth (%)	277.8%	17.9%	57.6%	5.7%	24.2%
PER (x)	**28.9**	**24.5**	**15.5**	**14.7**	**11.8**
PBV (x)	**4.95**	**4.05**	**2.48**	**2.13**	**1.82**
PEV (x)		**3.00**	**2.05**	**1.79**	**1.56**
VNB multiple (x)		**14.20**	**9.24**	**2.60**	**(2.72)**
Dividend per share (HK$)	**0.00**	**0.00**	**0.04**	**0.05**	**0.06**
Yield (%)	0.0%	0.0%	1.0%	1.0%	1.3%
Payout ratio (%)	0.0%	0.0%	15.0%	15.0%	15.0%
Return on equity (%)	**17.6%**	**19.0%**	**21.1%**	**15.5%**	**16.5%**
Return on assets (post MI, %)	1.1%	1.0%	1.5%	1.3%	1.4%
Tax rate (%)	22.3%	22.7%	19.9%	19.4%	20.3%

Operating ratios (%)	2010	2011	2012E	2013E	2014E
Gross written premium growth	36.1%	8.5%	9.6%	11.6%	14.2%
Net earned premium growth	39.2%	4.7%	6.4%	17.1%	17.1%
Ttl. claim/PH benefits to NEP	**79.0%**	**77.7%**	**78.5%**	**78.5%**	**77.9%**
Ttl. claim/PH benefits to total	**70.8%**	**67.8%**	**66.2%**	**67.0%**	**66.6%**
Commission cost ratio	7.9%	7.7%	7.3%	7.2%	7.3%
General & admin. cost ratio	16.6%	18.4%	18.0%	17.9%	17.9%
Finance exp. & Forex charge ratio	1.7%	2.2%	2.1%	2.2%	2.2%
Operating expense ratio	**26.1%**	**28.2%**	**27.5%**	**27.3%**	**27.4%**
New investment yield	3.6%	4.3%	4.5%	4.3%	4.3%
Gross investment yield	5.2%	3.6%	4.3%	4.4%	4.4%
Solvency ratio - Life	124.0%	132.0%	166.4%	173.5%	187.6%
Solvency ratio - Health	115.0%	107.0%	124.9%	124.3%	122.5%
Solvency ratio - P&C	115.0%	184.0%	198.8%	198.9%	201.8%
Solvency ratio - Group	125.0%	165.0%	199.5%	185.2%	178.5%

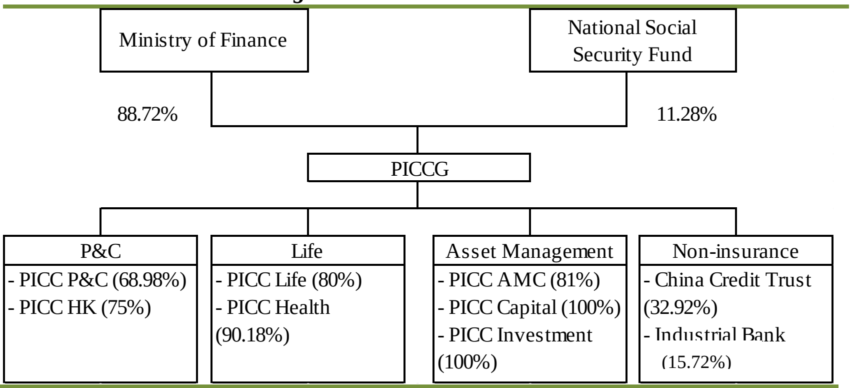
Balance sheet (Rmb mn)	2010	2011	2012E	2013E	2014E
Cash	40,498	55,333	87,316	96,164	121,579
Investments (excl. cash)	330,599	425,748	494,792	590,723	688,948
PP&E	18,366	19,060	20,966	23,063	25,369
Reinsurance Assets & receivables	15,844	25,223	302	251	291
Premium Receivables	10,320	23,437	40,952	45,717	52,191
Other assets	27,252	36,351	57,110	58,748	43,048
Total Assets	**442,879**	**585,152**	**701,439**	**814,666**	**931,426**
Insurance contracts liabilities	254,095	326,281	391,176	472,657	555,088
Investment contracts liabilities	41,253	49,156	60,111	74,085	87,876
Borrowings (Sub-debt)	29,474	34,670	36,404	38,224	40,135
Financial assets under repo agreement	29,713	54,080	59,488	65,437	71,980
Due to banks & FIs	3,961	284	312	344	378
Other Liabilities	47,670	72,746	71,803	68,765	64,925
Total liabilities	**406,166**	**537,217**	**619,294**	**719,510**	**820,381**
Net assets	**36,713**	**47,935**	**82,145**	**95,156**	**111,045**
Minority interests	13,478	16,591	20,790	25,151	30,477
Net equity to shareholders	**23,235**	**31,344**	**61,355**	**70,004**	**80,568**

Source: Company data, ABCI Securities estimates

Appendix I – Company background

PICCG is a leading insurance group in China, operating China P&C insurance business under a listed subsidiary PICC Property and Casualty Company Limited ("PICC P&C", 2328 HK) with 68.98% holding. Also, PICCG owns 75% of The People's Insurance Company (Hong Kong) Limited ("PICC HK") the P&C arm in Hong Kong. In 2011, PICC P&C is the market leader in China P&C industry, with a market share of 36.3% in Original Premiums Income ("OPI"), according to CIRC. On the other hand PICCG operates its L&H business under an 80% owned subsidiary PICC Life Insurance Co Ltd ("PICC Life") and 90.18% stake in PICC Health Insurance Company Limited ("PICC Health"), with 7.6% market share in L&H in terms of Total Written Premiums (TWP) or ranked fifth. It is clear that PICCG is a dominant market leader in P&C as its market share is ahead of the combined market share of the second to fourth largest players (Ping An, China Pacific and China Insurance [previously named as China United]) as well as a significant and fast growing player with 22.9% and 49% 2009-11 CAGR in L&H gross premiums respectively.

PICCG: Current shareholding structure



Source: PICCG

Appendix II – Business structure

PICCG: Business structure

Business segment	Business Units	Shareholders	Dual Strategic investor
P&C Insurance	PICC P&C	PICC Group (68.98%) AIG (9.9%) Independent third parties (21.12%)	AIG, an internationally recognized insurance company, has become a strategic investor in PICC P&C since 2003. The group cooperated with AIG closely for accidental injury and short term health insurance products.
	PICC HK	PICC Group (75%) Asia Insurance (25%)	
Life Insurance	PICC Life	PICC Group & subsidiaries (71.1% by Group 8.9% by P&C) Sumitomo Life Insurance Co. (10%) Asia Financial Group (5%) Bangkok Bank (5%)	Sumitomo Life is one of the life insurers in Japan which brings in expertise to PICC Life which had a relatively short history. PICC Life was established in 2005.
Health Insurance	PICC Health	PICC Group (90.18%) Deutsche Krankenversicherung AG (4.78%) 2 independent third parties (5.04%)	DKV is an international health insurer which brings in expertise to PICC Health which had a relatively short history. PICC Health was established in 2005.
Asset Management	PICC AMC	PICC Group (81%) MEAG (19%)	MEAG was introduced as a strategic investor in 2006. VP of PICC AMC was appointed by MEAG and employees at key posts of PICC AMC have also received training from MEAG on portfolio, investment and risk management, allowing the group to establish a corporate governance, portfolio management and risk managements systems compatible with characteristics of insurance funds investment at PICC AMC.
	PICC Capital	PICC AMC (55%) PICC Investment (45%)	(Engaged in non-transactional business such as private equity and debt investments)
Non-insurance Financials	PICC Investment	PICC group (100%)	(Engaged in real properties investment)
	China Credit Trust	PICC group (32.92%)	(Engaged in project financing and securities investment)
	Industrial Bank	PICC group (15.7%)	(Engaged in commercial banking)

Source: PICCG

Appendix II – Management profiles

PICCG: Management profiles (2011)

Name	Position	Responsibility
Mr. WU Yan	Executive Director, Chairman of the Board, Senior Economist	During Aug 2003 to Jan2007,WU Yan served as the deputy general manager of China Life Insurance (Group) Company. Mr.Wu was appointed as the general manager (president) of PICC in January 2007. Mr. Wu was awarded the Special Government Allowance by the State Council in Mar 2011.
Mr. DING Yunzhou	Executive Director, Vice President, Senior Economist	Mr. Ding joined the group in Oct 1977 and served successively as deputy general manager of the International Department, chairman of the board of directors.
Mr. WANG Yincheng	Executive Director, Vice president, Senior Accountant	Mr.Wang joined the group in Aug1982 , served successively as deputy general manager (in charge of daily operations) of the Planning and Finance Department.
Mr. LI Liangwen	Executive Director, Senior Economist	Mr. Li joined the group in July 1975.Mr. Li has been a standing director of the Insurance Association of China and member of the Expert Consultation Committee of the China Association of Actuaries since March 2011.
Mr. ZHOU Shurui	Vice President, Senior Administrative	Mr. Zhou joined the group in Mar 1992 and served as assistant to the general manager and deputy general manager of the Personnel Department.
Ms. ZHUANG Chaoying	Vice President, Deputy Editor	Ms. Zhuang served as deputy general manager (vice president) of the group since Dec2006.Ms. Zhuang has served as a director of The Insurance Institute of China since Nov 2011.
Mr. ZHOU Liqun	Vice President, Senior Accountant	Mr. Zhou served as vice chairman of the board of directors and president of PICC AMC since Aug2007, and vice president of the group since Mar 2009.
Mr. LI Yuquan	Vice President, Associate Professor	Mr. Li joined the group in July 1994 served as office deputy division director and director, deputy general manager of the Market Development Department
Ms. YU Xiaoping	Chief Investment Officer, Senior Economist	Ms. Yu has served as chief investment officer of the group since Jan 2010. Ms. Yu has served as a non-executive director of PICC P&C since Jan2011
Mr. ZHAO Jun	Chief Information Technology Officer, General Manager of the South Information Center, Senior Engineer	Mr. Zhao joined the group in Nov 1993, served as deputy general manager and general manager of the Information Technology Department
Mr. ZHOU Houjie	Financial Controller, Chief Financial Officer	Mr. Zhou has served as the financial controller and chief financial officer of the group since Jan 2010.

Source: PICCG

Appendix III - Life & Health insurance data

PICCG: TWP breakdown by life insurance products (2009-11)

(Rmb mn)	2009	2010	2011	1H12
Traditional life insurance	359	431	587	1,535
Participating life insurance	47,576	77,184	73,680	42,052
Universal life insurance	3,856	3,646	7,938	4,896
Short-term accident and health insurance	645	1,164	1,752	1,027
Total	**52,435**	**82,426**	**83,957**	**49,510**
Mix (%)				
Traditional life insurance	0.7	0.5	0.7	3.1
Participating life insurance	90.7	93.6	87.8	84.9
Universal life insurance	7.4	4.4	9.5	9.9
Short-term accident and health Insurance	1.2	1.4	2.1	2.1
Total	100.0	100.0	100.0	100
Growth (%)				
Traditional life insurance	-	20	36	NA
Participating life insurance	-	62	(5)	NA
Universal life insurance	-	(5)	118	NA
Short-term accident and health Insurance	-	80	51	NA
Total	-	**57**	**2**	**NA**

Source: PICCG; ABCI estimates

PICCG: TWP breakdown by health insurance products (2009-1H12)

(Rmb mn)	2009	2010	2011	1H12
Illness insurance	107	130	150	84
Medical care insurance	3,182	2,724	4,707	4,581
Disability losses insurance	0	7	6	49
Nursing care insurance	2,712	6,533	4,533	1,118
Accidental injury insurance	183	324	485	293
Participating endowment insurance	0	0	433	1,593
Total	**6,184**	**9,719**	**10,314**	**7,718**
Mix (%)				
Illness insurance	1.7	1.3	1.5	1.1
Medical care insurance	51.5	28.0	45.6	59.4
Disability losses insurance	-	0.1	0.1	0.6
Nursing care insurance	43.9	67.2	43.9	14.5
Accidental injury insurance	3.0	3.3	4.7	3.8
Participating endowment insurance	-	-	4.2	20.6
Total	**100.0**	**100.0**	**100.0**	**100.0**
Growth (%)				
Illness insurance	-	21	15	NA
Medical care insurance	-	-14	73	NA
Disability losses insurance	-	-	-14	NA
Nursing care insurance	-	141	-31	NA
Accidental injury insurance	-	77	50	NA
Participating endowment insurance	-	-	-	NA
Total	-	57	6	NA

Source: PICCG

China: Market share of L&H insurance market (2011)

		Premiums (Rmb bn)	Mkt share (%)
1	China Life	326	29.6
2	Ping An	181	16.4
3	NCI	97	8.8
4	CPIC	96	8.7
5	PICC Life	84	7.6
6	Taikang	83	7.5
7	Taiping	32	2.9
8	Sino Life	24	2.2
9	Sunshine Life	19	1.7
10	Union Life	11	1.0
		Total	86.4

Source: CIRC

PICCG: GWP breakdown of life insurance products by distribution channel (2009-11)

(Rmb mn)	2009	2010	2011
Bancassurance	43,975	63,605	60,038
Individual insurance agent channel	2,012	7,662	9,109
Group sales channel	580	860	1,214
Total	**46,567**	**72,127**	**70,361**
Mix (%)			
Bancassurance	94.4	88.2	85.3
Individual insurance agent channel	4.3	10.6	12.9
Group sales channel	1.2	1.2	1.7
Total	**100.0**	**100.0**	**100.0**

Source: PICCG

Life insurers: Persistency ratios, 2010-1H12 (%)

	13-mth persistency ratio			25-mth persistency ratio		
	2010	2011	1H12	2010	2011	1H12
PICC Group						
Life	95.9	95.6	96.9	73.3	92.7	94.4
Health	82.0	89.1	88.7	94.9	70.7	87.3
Ping An						
Life	93.1	94.2	93.7	87.0	89.5	91.6
CIPC						
Life	92.0	92.7	91.6	84.0	89.8	90.6
China Life*	93.0	92.5	92.5	87.6	86.9	87.0
NCI	91.7	91.5	90.6	84.6	88.3	89.4

Source: PICCG; companies

Appendix III - Property & Casualty insurance data

PICCG : GWP breakdown by P&C insurance products (2009-1H12)

(Rmb mn)	2009	2010	2011	1H12
GWPs				
Motor vehicle insurance	85,536	115,759	128,055	69,956
Commercial property insurance	9,565	10,643	11,874	7,749
Liability insurance	4,689	5,479	6,481	4,038
Accidental injury and health insurance	3,889	4,195	5,343	3,575
Cargo insurance	2,770	3,435	4,055	2,233
Other P&C insurance	13,471	14,940	18,281	13,360
Total	**119,920**	**154,451**	**174,089**	**100,911**
Mix (%)				
Motor vehicle insurance	71.3	74.9	73.6	69.3
Commercial property insurance	8.0	6.9	6.8	7.7
Liability insurance	3.9	3.5	3.7	4.0
Accidental injury and health insurance	3.2	2.7	3.1	3.5
Cargo insurance	2.3	2.2	2.3	2.2
Other P&C insurance	11.2	9.7	10.5	13.2
Total	**100.0**	**100.0**	**100.0**	**100.0**
Growth (%)	-			
Motor vehicle insurance	-	11	12	9
Commercial property insurance	-	17	18	3
Liability insurance	-	8	27	14
Accidental injury and health insurance	-	24	18	24
Cargo insurance	-	11	22	1
Other P&C insurance	-	29	13	25
Total	-	**35**	**13**	**11**

Source: PICCG, ABCI estimates

PICCG : Original premiums income breakdown of P&C business by distribution channel (2009-1H12)

(Rmb mn)	2009	2010	2011	1H12	No of agents/ brokers
Insurance agents	**92,175**	**115,990**	**122,172**	**65,111**	**200,800**
Individual insurance agents	59,991	74,245	72,305	37,596	169,300
Ancillary insurance agents	24,598	31,869	40,238	22,797	29,700
Professional insurance agents	7,586	9,876	9,629	4,718	1,800
Direct sales*	21,335	28,630	41,034	29,196	13,400
Insurance brokers	5,954	9,310	10,348	6,604	~900
Total	**119,464**	**153,930**	**173,554**	**100,911**	
Mix (%)					
Insurance agents	**77.2**	**75.4**	**70.4**	**64.6**	
Individual insurance agents	50.2	48.2	41.7	37.3	
Ancillary insurance agents	20.6	20.7	23.2	22.6	
Professional insurance agents	6.4	6.4	5.5	4.7	
Direct sales	17.9	18.6	23.6	28.9	
Insurance brokers	5.0	6.0	6.0	6.5	
Total	**100.0**	**100.0**	**100.0**	**100.0**	

Source: PICCG

**Refers to 13,700 sales and outlets*

Appendix IV - Investment portfolio

PICCG: Investment assets breakdown (2009-1H12)

(Rmb mn)	2009	2010	2011	1H12
Cash and cash equivalents	36,116	40,498	55,333	69,887
Fixed-income investments	148,616	257,201	321,132	340,233
Term deposits	14,253	44,262	94,716	118,291
Fixed-income securities	130,167	206,953	213,996	208,273
Government bonds	22,944	27,451	20,631	21,154
Finance bonds	65,314	106,745	123,316	116,654
Corporate bonds	41,909	72,757	70,049	70,465
Other fixed-income investments	4,196	5,986	12,420	13,669
Equity investments	32,670	49,037	59,997	71,191
Security investment funds	15,309	20,988	26,083	36,475
Equity securities	17,361	28,049	33,914	34,716
Other Investments	20,984	24,361	44,619	61,274
Total Investment Assets	**238,386**	**371,097**	**481,081**	**542,585**
YoY Growth %	**-**	**56**	**30**	**13**
Mix %				
Cash and cash equivalents	15.2	10.9	11.5	12.9
Fixed-income investments	62.3	69.3	66.8	62.7
Term deposits	6.0	11.9	19.7	21.8
Fixed-income securities	54.6	55.8	44.5	38.4
Government bonds	9.6	7.4	4.3	3.9
Finance bonds	27.4	28.8	25.6	21.5
Corporate bonds	17.6	19.6	14.6	13.0
Other fixed-income investments	1.8	1.6	2.6	2.5
Equity investments	13.7	13.2	12.5	13.1
Security investment funds	6.4	5.7	5.4	6.7
Equity securities	7.3	7.6	7.0	6.4
Other Investments	8.8	6.6	9.3	11.3
Total Investment Assets	**100.0**	**100.0**	**100.0**	**100.0**

Source: PICCG

Appendix V - Banc. Distribution & Customers

PICCG: Details of bancassurance branches and outlets of L&H insurance businesses (2009-1H12)

Life insurance	**2009**	**2010**	**2011**	**1H12**	**CAGR (%)**
Bancassurance branches and outlets	53,375	72,811	80,763	107,843	23.0
Effective bancassurance branches and outlets*	20,155	26,048	24,098	23,481	9.3
Bancassurance managers	9,671	19,728	20,487	20,453	45.5
Health insurance					
Bancassurance branches and outlets	4,099	5,492	8,094	8,333	40.5
Effective bancassurance branches and outlets*	860	1,805	1,467	1,491	30.6
Bancassurance managers	1,516	1,476	1,624	1,487	3.5

Source: PICCG

**The number of effective bancassurance branches and outlets for a year/reporting period is calculated by adding up the total monthly numbers of bancassurance branches and outlets that have issued at least one in-force policy for each month in that year/reporting period, and dividing the sum by 12 or the number of months in that reporting period*

H share insurance co: No. of individual and institutional customers (2009-1H12)

	The group				**Ping An**	**CPIC**	**NCI**
('000)	**2009**	**2010**	**2011**	**1H12**	**2011**	**2010**	**2011**
P&C insurance							
No. of individual customers*	49,947	67,543	72,021	72,208	18,894	15,637	-
No. of institutional customers*	3,042	2,828	2,392	2,294	1,895	2,872	-
L&H insurance							
No. of individual customers*	14,148	31,368	49,784	58,723	50,000	40,691	27,052
No. of institutional customers*	69	107	127	135	795	469	59

Source: PICCG, companies
**China Life did not disclose customer information in recent years and CPIC Life did not disclose 2011 customer information*

Appendix VI - Industry premium data

China Insurance: LIFE & P&C Gross Written Premium Data (11M 2012)

Life Insurers	Stock Code	Cumulative Premium Growth YoY (%) 2010	2011	Sep-12	Oct-12	Nov-12	Comments
China Life	2628 HK	12.9%	-4.4%	-0.4%	-0.8%	-0.8%	Flattish
Ping An Life	2318 HK	20.2%	-25.2%	7.4%	8.0%	8.3%	Flattish
China Pacific Life	2601 HK	36.1%	1.3%	0.5%	0.3%	0.3%	Flattish
New China Life	1336 HK	40.2%	1.2%	4.7%	4.6%	3.9%	Decelerates
PICC Life	1339 HK	57.2%	-14.6%	-7.5%	-9.0%	-8.3%	Accelerates
China Taiping	966 HK	46.2%	-4.7%	10.0%	11.9%	14.2%	Accelerates
Taikang Life	Not Listed	29.5%	-21.7%	-7.8%	-8.3%	-8.9%	Decelerates
Industry		28.9%	-9.0%	3.6%	3.5%	3.5%	Flattish

P&C Insurers	Stock Code	Cumulative Premium Growth YoY (%) 2010	2011	Sep-12	Oct-12	Nov-12	Comments
PICC P&C	2328 HK	28.9%	12.6%	10.9%	11.1%	11.5%	Flattish
Ping An P&C	2318 HK	61.4%	34.2%	20.0%	19.6%	19.5%	Flattish
China Pacific P&C	2601 HK	50.5%	19.5%	11.1%	11.7%	12.4%	Accelerates
Industry		34.5%	18.7%	15.1%	15.3%	15.5%	Flattish

Life Insurers	Stock Code	Monthly Premium Growth YoY (%) Jan-12	Feb-12	Sep-12	Oct-12	Nov-12	Comments
China Life	2628 HK	11.9%	-25.6%	23.8%	-6.1%	-1.0%	Accelerates
Ping An Life	2318 HK	16.5%	6.6%	15.5%	15.7%	12.1%	Decelerates
China Pacific Life	2601 HK	4.2%	-3.4%	5.9%	-2.2%	0.4%	Accelerates
New China Life	1336 HK	19.6%	15.0%	-3.5%	4.1%	-5.7%	Decelerates
PICC Life	1339 HK	-0.4%	-10.2%	-21.0%	-28.9%	2.1%	Accelerates
China Taiping	966 HK	10.7%	9.6%	38.4%	32.6%	39.3%	Accelerates
Taikang Life	Not Listed	3.6%	-13.5%	-6.2%	-14.5%	-15.9%	Decelerates
Industry		12.7%	-6.5%	12.6%	1.6%	4.5%	Accelerates

P&C Insurers	Stock Code	Monthly Premium Growth YoY (%) Jan-12	Feb-12	Sep-12	Oct-12	Nov-12	Comments
PICC P&C	2328 HK	-0.5%	30.6%	14.0%	13.7%	15.5%	Accelerates
Ping An P&C	2318 HK	9.4%	39.3%	20.2%	16.3%	18.6%	Accelerates
China Pacific P&C	2601 HK	2.0%	29.8%	15.6%	17.2%	20.3%	Accelerates
Industry		3.9%	38.5%	16.4%	17.5%	17.5%	Flattish

Life Insurers	Stock Code	Market Share (%) 2010	2011	Nov-12	Total Premiums (Rmb mn) 2010	2011	Oct-12	Nov-12
China Life	2628 HK	31.7%	33.3%	32.3%	333,040	318,253	279,841	298,772
Ping An Life	2318 HK	15.1%	12.4%	12.9%	159,064	118,967	109,793	119,184
China Pacific Life	2601 HK	8.8%	9.7%	9.5%	92,000	93,203	81,774	88,144
New China Life	1336 HK	8.9%	9.9%	10.0%	93,643	94,797	86,381	92,219
PICC Life	1339 HK	7.8%	7.4%	6.4%	82,426	70,361	55,202	59,614
China Taiping	966 HK	3.1%	3.3%	3.6%	33,025	31,458	29,717	32,998
Taikang Life	Not Listed	8.3%	7.1%	6.3%	86,765	67,937	54,247	58,017
Industry		100.0%	100.0%	100.0%	1,050,088	956,000	857,296	925,275

P&C Insurers	Stock Code	Market Share (%) 2010	2011	Nov-12	Total Premiums (Rmb mn) 2010	2011	Oct-12	Nov-12
PICC P&C	2328 HK	38.2%	36.3%	35.2%	153,930	173,372	160,300	175,609
Ping An P&C	2318 HK	15.4%	17.4%	17.9%	62,116	83,333	80,992	89,273
China Pacific P&C	2601 HK	12.8%	12.9%	12.6%	51,529	61,591	56,933	62,795
Industry		100.0%	100.0%	100.0%	402,689	477,906	454,119	499,165

Source: CIRC, Bloomberg, Companies

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Rating	Definition
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Hold	Market return – 6% ≤ Stock return < Market return rate
Sell	Stock return < Market return – 6%

Stock return is defined as the expected % change of share price plus gross dividend yield over the next 12 months
Market return: 5-year average market return rate from 2007-2011
Time horizon of share price target: 12-month

Definition of share price risk

Rating	Definition
Very high	2.6 ≤180 day volatility/180 day benchmark index volatility
High	1.5 ≤ 180 day volatility/180 day benchmark index volatility < 2.6
Medium	1.0 ≤180 day volatility/180 day benchmark index volatility < 1.5
Low	180 day volatility/180 day benchmark index volatility < 1.0

We measure share price risk by its volatility relative to volatility of benchmark index. Benchmark index: Hang Seng Index.
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