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**Research Update:**

## China Life 'AA-', China Life Overseas 'A+' Ratings Affirmed Despite Continued Capital Weakness; Outlook Remains Negative

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## Research Update:

# China Life 'AA-', China Life Overseas 'A+' Ratings Affirmed Despite Continued Capital Weakness; Outlook Remains Negative

## Overview

- We consider China Life's capitalization to be commensurate with our ratings despite the company's declining earnings.
- We are affirming our 'AA-' long-term local currency insurer financial strength and counterparty credit ratings and 'cnAAA' long-term Greater China regional scale rating on China Life Insurance Co. Ltd. At the same time, we maintain our view of China Life's core group status to China Life Insurance (Group) Co.
- We are also affirming our 'A+' long-term local currency insurer financial strength and counterparty credit ratings and 'cnAAA' long-term Greater China regional scale rating on China Life Insurance (Overseas) Co. Ltd.
- Our rating outlook for both insurers remains negative, reflecting our expectations of continued pressure on both operational and financial performance of the China Life Insurance Group and its operating subsidiaries, as well as the outlook on the Chinese sovereign.

## Rating Action

On Nov. 30, 2016, S&P Global Ratings affirmed its 'AA-' long-term local currency insurer financial strength and counterparty credit ratings on China-based insurer China Life Insurance Co. Ltd. (China Life). At the same time, we affirmed our 'A+' long-term local currency insurer financial strength and counterparty credit ratings on China Life Insurance (Overseas) Co. Ltd. (China Life Overseas), China Life's sister company. The outlook on both companies remains negative.

We also affirmed our 'cnAAA' long-term Greater China regional scale ratings on both insurance companies. At the same time, we affirmed our 'A' long-term issue rating and 'cnAA+' long-term Greater China regional scale rating on China Life's outstanding notes.

## Rationale

The rating affirmation on China Life reflects our belief that the insurer's likelihood to receive timely support from the Chinese government during distress is high. We expect this support to flow through from China Life's parent, China Life Insurance (Group) Co. (China Life Group, unrated), which is wholly owned by the Ministry of Finance of China. The affirmation on China

Life also reflects the insurer's leading position as China's largest life insurance company with strong financial flexibility. However, we believe China Life's capital and earnings profile will remain pressured as we expect moderating profits over the next two years. This reflects the low domestic interest rate and volatile investment environment.

Despite the better-than-expected contribution of value-in-force through sale of more profitable long-duration protection insurance policies in 2016, the rising pressure on additional loss reserve provisions and subdued investment income will moderate China Life's profitability.

We believe the increased stake in China GuangFa Bank (CGB) to 43.6% from 20% weakened China Life's capital buffer against volatile investment movements. In our opinion, CGB's credit profile is weaker than that of China Life. We consider CGB as a strategic affiliate of China Life and the likelihood of an eventual sale of this stake to be remote. China Life's chairman was recently appointed chairman of CGB too. For our capital evaluation, we subject the investments in CGB to 100% risk charge (i.e., deduct this from the insurer's capital) for our assessment of China Life's capital base. In the event that China Life further increases its stake in CGB, it will weaken the life insurer's capital position.

We consider China Life Group's overall credit profile to be highly correlated to that of China Life. This reflects China Life's dominant contribution to China Life Group's total revenues, assets, and shareholders' equity. Although we expect the legacy high-guarantee life insurance policies (written before June 30, 1999) to weigh negatively on China Life Group's financial position, the impact is minimal due to an explicit guarantee provided by the Ministry of Finance on these policies.

The affirmed ratings on China Life Overseas reflect our view that the insurer remains highly strategic to the wider China Life Group. China Life Overseas operates as Hong Kong's second-largest life insurer and distributes its products predominantly through the bancassurance channel. During the second half of 2015, China Life Group provided a capital injection of Chinese renminbi (RMB) 2 billion to China Life Overseas. While its contribution to the group's asset base and profitability is small, China Life Overseas benefits from continued capital support. We view the likelihood of China Life Overseas becoming a core subsidiary to China Life Group as remote.

## **Outlook**

The negative outlook reflects our view that China Life's subdued earnings will continue to strain the company's capitalization over the next one to two years. The negative outlook also reflects that of the China sovereign. The outlook on China Life Overseas follows that of China Life (core operating entity of China Life Group).

## Downside scenario

We may downgrade China Life if we lower the sovereign credit rating on China or if we assess that the likelihood of receiving extraordinary government support has reduced.

We may also lower the rating if the insurer's financial risk profile deteriorates over the next 24 months due to one or more of the following:

- weakened capitalization stemming from an aggressive investment strategy or a further increase in stake in CGB;
- its fixed charge coverage falling below 4x; or
- the company's unhedged foreign exchange risk exposure relative to its total liabilities exceeding 10%.

Like China Life, we will lower the ratings on China Life Overseas if we lower the sovereign credit rating on China. We may also downgrade China Life Overseas if the credit quality of China Life Group deteriorates.

## Upside scenario

The outlook on China Life and China Life Overseas may be revised to stable if:

- China Life's capital and earnings strengthen over the next 24 months, improving the credit quality of China Life Group, and
- The sovereign credit rating on China stabilizes at the current level.

## Ratings Score Snapshot

(China Life Insurance Co. Ltd.)

Anchor:	a
Business risk:	Very strong
Financial risk:	Upper adequate
Modifier:	0
ERM and management:	0
Holistic analysis:	0

SACP:	a
Liquidity test:	0
Sovereign risk:	0
Support:	2
Group support:	0
Govt. support:	2
Outlook:	Negative

## Related Criteria

- General Criteria: S&P Global Ratings' National And Regional Scale Mapping Tables, June 1, 2016

- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- General Criteria: National And Regional Scale Credit Ratings, Sept. 22, 2014
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Insurance - General: Enterprise Risk Management, May 7, 2013
- Criteria - Insurance - General: Insurers: Rating Methodology, May 07, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Criteria - Insurance - General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

## Ratings List

### Ratings Affirmed

China Life Insurance Co. Ltd.	
Counterparty Credit Rating	AA-/Negative/--
Greater China Regional Scale Financial Strength Rating	cnAAA/--/--
Local Currency	AA-/Negative/--

China Life Insurance (Overseas) Co. Ltd.	
Counterparty Credit Rating	
Local Currency	A+/Negative/--
Greater China Regional Scale Financial Strength Rating	cnAAA/--/--
Local Currency	A+/Negative/--

China Life Insurance Co. Ltd.	
Subordinated	A
Subordinated	cnAA+

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.globalcreditportal.com](http://www.globalcreditportal.com) and at [www.spcapitaliq.com](http://www.spcapitaliq.com). All ratings affected by this rating action can be found on the S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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