

Rating Action: China Life Insurance Co Ltd

Moody's assigns A1 IFS rating to China Life; outlook stable

Hong Kong, January 20, 2009 -- Moody's Investors Service has assigned an A1 insurance financial strength (IFS) rating to China Life Insurance Co Ltd (China Life). The rating outlook is stable. This is the first time that Moody's has assigned a rating to China Life.

China Life is the largest life insurance company in China. It is 68.4% owned by China Life Insurance (Group) Company (CLIC), which in turn is ultimately wholly owned by the Ministry of Finance of the People's Republic of China.

Because of this 68.4% effective ownership by the Ministry of Finance, Moody's applies not only its Global Rating Methodology for Life Insurers, but also its Rating Methodology for Government Related Issuers.

The A1 rating of China Life reflects the combination of the following inputs:

- Baseline credit assessment of 5 (on a scale of 1 to 21, where "A" assessments are published as a range from 5 to 7)
- The A1 local currency rating of the Chinese government (with stable outlook)
- Medium dependence, reflecting China Life's exposure, especially with its large investment portfolio consisting of equities and fixed-income securities, to China's economic environment
- Medium support, reflecting the strategic importance of China Life as the flagship company in the life insurance industry, and its majority ownership by the state
- The A1 country ceiling for foreign currency denominated obligations of Chinese firms

"China Life's baseline credit assessment reflects its exceptional market position and vast distribution network throughout the country," says Sally Yim, a Moody's Assistant Vice President/Analyst.

"It has a track record of strong and stable profitability, and is unencumbered by any legacy negative spread burden as a result of the transfer of high guarantee policies during its listing in 2003 to its parent, CLIC," adds Yim.

In addition, Moody's expects that China Life will continue to achieve good premium growth over the near to medium term, as the Chinese insurance market shows low penetration levels and is supported by robust economic growth.

Furthermore, China Life has solid capitalization along with minimal financial leverage.

"Nevertheless, the company faces the challenge of maintaining its market share as competition in the life sector is intense due to the opening-up of the market," says Yim, adding, "The capitalization of China Life, while remaining strong, is subject to the negative impact of lower investment yields, given the volatile market conditions and a lower interest rate environment."

In addition, the company's large size exposes it to any significant economic downturns and social risks, which could adversely impact its investment results.

Further, China Life faces significant regulatory risks as related to capital requirements, product sales and investment limits. As regulation evolves, the company will be required to manage an increasing number of changes in these areas.

The stable outlook reflects Moody's expectation that China Life will maintain its prudent financial profile and market position in the weakening operating environment.

Upward movement in Moody's baseline credit assessment could arise because of (1) a successful diversification of its distribution channels and product offerings; (2) an improvement in asset quality that would help narrow its asset-liability gap, which could be achieved via prudent overseas investment allocations and reductions in equity investments; and (3) continued improvement in its risk management practices.

Under current support and dependence assumptions, China Life's rating is constrained by the country ceiling and therefore would be upgraded if China's country ceiling were raised.

On the other hand, downward rating pressure could emerge if there is (1) a significant weakening of capitalization with its capital-to-assets ratio below 12%, or its solvency ratio drops significantly; (2) a sharp deterioration in profitability due to volatile investment income, missteps in underwriting, or regulatory risk (e.g. ROE consistently falls into the range of 10% -15%, or even lower); and/or (3) a material increase in the company's financial leverage, e.g. to above 25% and a significant rise in the holding company's financial leverage.

The principal methodology used in rating China Life is "Moody's Global Rating Methodology for Life Insurers", which can be found at www.moodys.com in the Credit Policy & Methodologies directory, in the Ratings Methodologies subdirectory. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Credit Policy & Methodologies directory.

Headquartered in Beijing, China Life Insurance Co Ltd is the largest life insurance company in the country, offering term life, whole life, endowment, annuities, universal life, accident and health insurance products. For the first half of 2008, net earned premiums on a Hong Kong Financial Reporting Standard basis were RMB 78.7 billion. As of June 30, 2008, total assets and shareholders' equity were RMB 964.0 billion and RMB 167.7 billion, respectively.

Moody's insurance financial strength ratings are opinions of the ability of insurance companies to repay senior policyholder claims and obligations. For more information, visit our website at www.moodys.com/insurance.

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