Moody's
INVESTORS SERVICE

Credit Opinion: China Life Insurance Co Ltd

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Beijing, China

Ratings

Category	Moody's Rating
Rating Outlook	POS
Insurance Financial Strength	A1

Contacts

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Key Indicators

[1]**China Life Insurance Co Ltd**

	2009	2008	2007	2006	2005
Total Assets (RMB Mil.)	$ 1,226,257	$ 987,493	$ 933,704	$ 764,395	$ 559,219
Shareholders' Equity (RMB Mil.)	$ 211,072	$ 173,947	$ 205,500	$ 139,665	$ 80,378
Net Profit Attributable to Shareholders of the Company (RMB Mil.)	$ 32,881	$ 19,137	$ 38,879	$ 19,956	$ 9,306
Total Revenues (RMB Mil.)	$ 339,290	$ 300,385	$ 191,372	$ 147,311	$ 98,212
High Risk Assets % Shareholders' Equity	89.0%	48.2%	97.8%	72.4%	48.9%
Goodwill & Intangibles % Shareholders' Equity	0.0%	0.0%	19.8%	28.0%	46.7%
Shareholders' Equity % Total Assets	16.1%	17.0%	20.4%	17.2%	13.8%
Return on Capital (1 yr.)	17.0%	10.1%	22.5%	18.1%	12.7%
Sharpe Ratio of ROC (5 yr.)	332.0%	---	---	---	---
Adjusted Financial Leverage [2]	1.6%	1.6%	1.1%	1.6%	2.9%
Total Leverage [2]	1.6%	1.6%	1.1%	1.6%	2.9%
Earnings Coverage (1 yr.) [2]	NM	NM	NM	NM	NM
Cashflow Coverage (1 yr.) [2]	NM	NM	NM	NM	NM

[1] Information for 2008-2009 is based on IFRS; 2005-2007 is based on HKFRS [2] At China Life company level only, not holdco level

Opinion

SUMMARY RATING RATIONALE

China Life Insurance Co Ltd ("China Life") is the largest life insurance company in China. It mainly offers term life, whole life, endowment, annuities, universal life, accident and health insurance products. It is 68.4% owned by The China Life Insurance (Group) Company ("CLIC"), which in turn is ultimately wholly owned by the Ministry of Finance (MoF) of the People's Republic of China.

Because of the 68.4% effective ownership by the MoF, Moody's applies not only its Global Rating Methodology for Life Insurers, but also its Rating Methodology for Government Related Issuers (GRIs). This involves assessing the probability of support from the Chinese government, and the dependence level between China Life and the government.

The A1 insurance financial strength (IFS) rating of China Life reflects the combination of the following inputs:

- Baseline credit assessment ("BCA") 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 positive outlook)

- Medium dependence, reflecting China Life's exposure to China's economic environment (especially with regard to its large investment portfolio consisting of equities and fixed-income securities)

- 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 BCA reflects its exceptional market position and vast distribution network throughout the country. It has a strong and stable profitability track record which is unencumbered by legacy negative spread burden -- a result of the transfer of high guarantee policies during its listing in 2003 to CLIC. Further, China Life has a solid capitalization along with minimal financial leverage as well as a conservative investment strategy. Its long-term premium growth prospects are also favourable against the backdrop of strong economic growth in China and low insurance penetration.

Nonetheless, China Life's needs to maintain a high level of capitalization in order to support its strong growth. In addition, as market volatility heightens, its investment results could be subject to volatility, affecting its profitability. China Life also faces the challenge of maintaining its market share as competition heats up in the life sector due to the opening-up of the market to foreign players and growth of its domestic competitors. Further, China Life faces significant regulatory risks as related to capital requirements, product sales and investment limits. Hence it would be required to manage an increasing number of changes in these areas.

Credit Strengths

- Formidable market position and vast distribution network in the Chinese life insurance market, which is growing rapidly on the back of robust economic growth and low penetration

- Strong and stable profitability track record

- Lack of a legacy negative spread burden as old policies remain with its parent, CLIC; the burden is supported by resources from the MoF

- Solid capitalization and minimal financial leverage

Credit Challenges

- Need to maintain strong capitalization to support its strong premium growth

- Maintaining its top market share as the industry is becoming more intensely competitive - Managing regulatory changes and constraints which could impact its product structure, investment allocations, and capitalization

- Its profitability, including its investment results, is subject to volatility and is highly dependent on the economic conditions of China

Rating Outlook

The rating outlook is positive, the same as the outlook of the Chinese government's bond ratings. This reflects that given the government's substantial stake in China Life, as well as the company's strategic importance as the flagship company in the life insurance industry, the ratings of the two entities are closely linked.

What Could Change the Rating - Up

At the current support and dependence assumptions, as well as the stand-alone financial strength of China Life, its rating will be upgraded if the sovereign ratings of China are upgraded.

In addition, its BCA will be adjusted upwards if China Life achieves:

- Successful diversification of its distribution channels and product offerings

- Improved asset quality helping narrow the asset-liability gap, which could be achieved via prudent overseas investment allocation and reduction in equity investments

- Continued improvement in risk management

What Could Change the Rating - Down

- Significant weakening of capitalization with adjusted capital-to-assets ratio below 12% or its solvency ratio drops significantly

- Sharp deterioration in profitability due to volatile investment income, missteps in underwriting or regulatory risk (e.g. Return-On-Capital consistently falls into the range of 8%-12%, or even lower)

- Increased holdings of high risk assets to more than 150% of its shareholders' equity

- Material increase in the company's adjusted financial leverage, e.g. to above 30% and a significant rise in the holding company's financial leverage

Recent Results and Company Events

For 2009, gross written premiums of China Life (on the IFRS basis) reached RMB 276.0 billion, representing a 3.9% increase over the corresponding period a year earlier. This modest increase was attributable to the adjustment of product structure to selling more regular premium products . Net profit attributable to shareholders of the company for 2009 was RMB 32.9 billion versus RMB 19.1 billion reported a year ago. It increased 71.8% mainly due to an increase in realized and unrealized gains and lower impairment losses, mostly related to equity securities.

DETAILED RATING CONSIDERATIONS

Moody's rates China Life A1 for insurance financial strength (equivalent of a BCA of "5"), which is the same as the rating indicated by the Moody's IFS rating scorecard.

Insurance Financial Strength Rating

The key factors currently influencing the rating and outlook are:

Factor 1 - Market Position and Brand: Aaa

As the largest company in the industry, China Life had a relative market share of 4.0x in 2009, which indicates a top-tier market position. Because of its long history as the state-owned insurer, it has strong brand recognition and market positions in almost all cities and rural areas.Therefore, Moody's regards China Life's market position to be in line more with Aaa-rated peers at this stage.

Factor 2 - Distribution: A

China Life's main two distribution channels are captive insurance agents and bancassurance, contributing over 40% of its premium. Diversification into other channels such as cross-selling or tele-marketing will take a long time as these channels are still relatively new in China. As a result, its distribution diversification will be limited for the near to medium term.

Currently, bancassurance sales is very strong in China. Nonetheless, China Life is cautious of its growth in bancassurance as products sold through bank counters concentrate on single-premium products. As the company wants to increase its proportion of premium income from regular premium products, it endeavors to strengthen its captive agency force. Nonetheless, its captive agents' productivity still has room for improvement, a result of its young and rapidly expanding agency force.

Overall, Moody's believes China Life's distribution is consistent with our expectations for an A-rated company.

Factor 3 - Product Focus and Diversification: A

China Life's product profile is in line with A-rated peers. Its product risk is considered excellent given that it does not have any negative spread burden from high guarantee policies (these policies remained with its parent company when China Life was listed in 2003). The large block of participating policies has low guarantee rates which does not contribute to significant interest rate risk.

However, the company's product diversification is limited, as universal life policies are only sold initially in 2008. The two largest segments are traditional life (which includes whole life and endowment products) and annuities. Overall, Moody's views China Life's product focus and diversification as being consistent with A-rated companies.

Factor 4 - Asset Quality: A

As of December 31, 2009, China Life's high risk assets (including equities and other loans) as a % of shareholders' equity was 89.0%, indicating moderate level of asset quality. A large portion of its high-risk assets is in equity investments. Moody's believes that its capital position and income are still highly subject to volatility given that equity would continue to be one of the important investment channels for China Life, given the limited availability for fixed-income investment opportunities. The company has also indicated an appetite for other alternative investment channels as regulatory restrictions are lifted. Moody's regards China Life's asset quality at the "A" level.

If China Life were to significantly increase their holdings of high risk assets, such as equity investments or real estate, this would be a credit negative.

Factor 5 - Capital Adequacy: Aa

At end-2009, China Life's solvency ratio was still strong at 303.6%, which was well above the regulatory minimum of 100%. In reviewing the company's adjusted capital-to-total-asset ratio, it was at 16.1%. Even though this corresponds to our Aaa category in our rating scorecard, Moody's adjusted the final score to the Aa-level. This reflects that a strong capital base would be necessary to support strong premium growth expected over the medium term and the volatility in profitability and capital from its increasing holdings of high-risk assets

Factor 6 - Profitability: Aa

China Life, unlike other peers in the Asia Pacific region, does not have any negative spread issue as it transferred high guarantee policies issued prior to 1999 to CLIC at the time of listing in 2003. Therefore, it does not bear any negative spread burden which has helped produce stable and consistent profitability.

Because of this and steady investment performance, China Life's achieved a 5-year return-on-capital of 16.1%, mapping to our "Aaa" level. Volatility in profitability is considered relatively low, and hence Moody's believes that its profitability compares to a "Aa"-rated company, and is one of its credit strengths.

Nevertheless, Moody's notes that China Life's operating and investment performance will be highly dependent on the economic conditions in China.

Factor 7 - Liquidity and Asset Liability Management: A

China Life's liquidity level is sufficient to meet policy maturities, especially considering its good premium growth. Its investment portfolio is highly liquid with only a very small portion in real estate and loans. As a result, it fares well under Moody's liquidity stress test, with its liquid assets to liquid liabilities ratio between 2x-4x.

However, its investment strategy is somewhat inflexible due to the limited number of investment channels available resulting from regulations and the lack of a deep regional fixed income market. Because of this, it has the issue of duration mismatches. Nonetheless, this should improve over time as regulations ease.

Overall, Moody's views its liquidity and ALM to be more consistent with A-rated companies as there continues to be asset-liability duration mismatches and the lack of a sophisticated asset-liability management model. It is also subject somewhat to market liquidity risk for some of its debt securities investments due to its large portfolio relative to the overall market.

Factor 8 - Financial Flexibility: A

Currently, China Life does not have any debt outstanding. Its adjusted financial leverage was minimal, and includes a very small portion of operating lease debt adjustment. Its listings in the Hong Kong, Shanghai and New York stock exchanges provides it with some flexibility should it need to raise capital. This indicates a good level of financial flexibility with minimal needs for interest coverage.

Moody's also considers China Life's financial flexibility at the CLIC level. While CLIC continues to bear the negative spread burden from old policies, these policies are segregated in a separate fund and its liabilities are supported by the MoF. Nonetheless, Moody's notes that CLIC is relying mainly on China Life's dividend resources as well as the support from the MoF (see "Other Considerations" section). In addition, other affiliates under CLIC are in the growth phase, which may require additional capital support thereby affecting China Life and CLIC's capital management policies.

Overall, Moody's regards China Life's financial flexibility to be more in line with A-rated peers rather than the Aaa rating as indicated by the IFS scorecard.

Operating Environment: China: Baa

In addition to the company's own business and financial fundamentals, Moody's considers China's operating environment in arriving at our final rating for China Life. Our overall Baa insurance operating environment factor for the country is based on our assessment of China's generally high economic strength, moderate institutional strength, and low susceptibility to event risk, in accordance with Moody's published Sovereign rating indicators for the country offset by limited penetration of the insurance market in the national economy and the per capita utilization of insurance, relative to other countries worldwide. Overall, the Baa insurance operating environment for China exerts a mildly negative influence on China Life, given the company's otherwise strong overall credit profile.

Other Considerations

Moody's applies its Rating Methodology for Government Related Issuers to China Life because of the 68.4% effective ownership by the MoF. The application involves assessing the probability of support from and the default dependence level between China Life and the Chinese government.

Moody's believes that the likelihood of support is medium, given the majority ownership of MoF of China Life and its flagship status in the life insurance industry. The dependence level, on the other hand, is also medium, reflecting China Life's exposure to China's economic environment, especially with regard to its large investment portfolio consisting of equities and fixed-income securities.

On November 9, 2009, Moody's changed China Life's rating outlook from stable to positive, following the rating agency's decision to change the outlook of the Chinese government's foreign currency and local currency bond ratings from stable to positive. The rating action reflects Moody's view that given the government's substantial stake in China Life, as well as the company's strategic importance as the flagship company in the life insurance industry, the Chinese government will very likely support China Life in a stress situation. As such, the ratings of the two entities are closely linked, in light of current support and dependence assumptions, as well as the stand-alone financial strength of China Life.

Rating Factors

China Life Insurance Co Ltd

Financial Strength Rating Scorecard [1][2]	**Aaa**	**Aa**	**A**	**Baa**	**Ba**	**B**	**Caa**	**Score**	**Adjusted Score**
Business Profile								**Aa**	**Aa**
Market Position and Brand (14%)								**Aaa**	**Aaa**
Relative Market Share Ratio	**X**								
Distribution (9%)								**Baa**	**A**
Distribution Control			**X**						
Diversity of Distribution				**X**					
Product Focus and Diversification (9%)								**A**	**A**
Product Risk			**X**						
Life Insurance Product Diversification			**X**						
Financial Profile								**Aa**	**Aa**
Asset Quality (9%)								**A**	**A**
High Risk Assets % Shareholders' Equity			**89.0%**						
Goodwill & Intangibles % Shareholders' Equity	**0.0%**								
Capital Adequacy (14%)								**Aaa**	**Aa**
Shareholders' Equity % Total Assets	**16.1%**								
Profitability (14%)								**Aa**	**Aa**
Return on Capital (5 yr. avg)	**16.1%**								
Sharpe Ratio of ROC (5 yr. avg)		**332.0%**							
Liquidity and Asset/Liability Management (9%)								**Aa**	**A**
Liquid Assets % Liquid Liabilities		**X**							
Financial Flexibility (14%)								**A**	**A**
Adjusted Financial Leverage [3]	**1.6%**								
Total Leverage [3]	**1.6%**								

Earnings Coverage (5 yr. avg) [3]				NM					
Cashflow Coverage (5 yr. avg) [3]				NM					
Operating Environment (10%)								**Baa**	**Baa**
Aggregate Profile								**Aa3**	**A1**

[1] Information for 2008-2009 is based on IFRS; 2005-2007 is based on HKFRS [2] The Scorecard rating is an important component of the company's published rating, reflecting the stand-alone financial strength before other considerations (discussed above) are incorporated into the analysis [3] At China Life company level only, not holdco level