

China Life Insurance Co. Ltd.

Primary Credit Analyst:

Eunice Tan, Hong Kong (852) 2533 3553; eunice_tan@standardandpoors.com

Secondary Contact:

Ryan Tsang, CFA, Hong Kong (852) 2533-3532; ryan_tsang@standardandpoors.com

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China Life Insurance Co. Ltd.

Major Rating Factors

Strengths:

- Implicit support from the government
- Very strong business franchise
- Strong capitalization and operating performance

Weaknesses:

- Higher operational risks than peers due to its geographically vast and decentralized operations within China
- Asset and liabilities constraint

Operating Company Covered By This Report

Financial Strength Rating

Local Currency

AA-/Stable/--

Rationale

The ratings on China Life Insurance Co. Ltd. reflect our view that there is a very high likelihood of extraordinary support from the central government of the People's Republic of China (AA-/Stable/A-1+). In addition, the ratings reflect China Life's strong business franchise, strong capitalization and financial flexibility, and satisfactory operating performance. Moderating these strengths are operational risks from China Life's large geographical coverage and financial risks arising from its asset and liabilities mismatch, given the restrictive regulations and China's underdeveloped capital markets.

We consider China Life to be a government-related entity (GRE), and we believe there is a "very high" likelihood that it will receive timely and sufficient extraordinary government support, in the event of financial distress. We assess its stand-alone credit profile to be 'a'. Our view of the likelihood of extraordinary government support is based on our assessment of the following characteristics:

- Very important role to the Chinese government through supporting the government's policy to provide social welfare to the Chinese citizens; and
- Very strong linkage to the government reflecting the government's ultimate ownership in China Life.

China Life plays a very important role in supporting the government's policy of providing social welfare to the citizens. Although the insurer is commercially managed, it has a quasi-policy role, such as writing micro-insurance and helping the government to manage its healthcare program in rural areas. China Life's very strong linkage to the government is evident in the government's ultimate ownership of the insurer through China Life Insurance (Group) Co. The government also appoints the company's senior management. The Chinese government has provided financial support to China Life in the past, reflecting the guarantee (through a fund) provided by the Ministry of Finance on insurance policies with high guaranteed rates that were written before 1999. These policies were transferred to the parent company when China Life was listed in 2003.

China Life's competitive position within China is very strong with a market share of over 30% of the industry's gross premiums written in 2010 and a wide coverage of more than 100 million policyholders. It benefits from a vast nationwide distribution network and has the most insurance agents in China, providing the company a big advantage over its peers. The company also has a solid position in the bancassurance market, with more than

97,000 outlets through different banks all over the country.

Although China Life's capitalization weakened in 2010, it remains strong based on our risk-based capital analysis, reflecting its rapid growth and its increased equity investments in 2009. The insurer's capital structure is good, in our view, due to its limited reliance on subordinated debt funding. We do not expect the insurance policies with high guaranteed rates written before 1999 to affect China Life's financial profile. These policies were transferred to its immediate parent, China Life Insurance (Group) Co., and are guaranteed by the Ministry of Finance through a fund. We view China Life's financial flexibility as strong, supported by good internal capital generation ability, access to capital markets, and potential government support during extraordinary times.

Moderating its strengths is China Life's exposure to higher operational risk, when compared with peers', given its very large size and extremely diversified geographic spread across China. Although the company has made good progress in risk management, through provincial centralization to improve efficiency and reduce operational risk since listing in 2003, we consider its ability to manage increasing risk complexity as limited.

Although China Life invests conservatively in good-quality long-duration assets, we view the underdeveloped domestic capital markets and regulatory restrictions on investments as constraints on the company's ability to manage its asset-liability duration mismatch. Its equity investments in 2010 and 2009 increased when compared with 2008, reflecting the improvement in the equity asset valuation. Despite that, the insurer's investment portfolio is prudent, reflecting a majority of asset allocation in government and government-agency bonds, and cash deposits. The bonds' maturity are mostly more than five years.

Enterprise Risk Management

China Life's enterprise risk management is adequate, given its traditional risk management framework. The insurer monitors its risk through its risk and internal control committee. The committee, headed by the CEO, comprises senior managers. While it does not have a chief risk officer, we consider the overall risk awareness to be adequate. In our view, the company's overall risk management framework is silo. The establishment of individual risk departments within provincial branches, which report to the headquarters' risk department, provides the management with better operational oversight. China Life generates an annual risk report, encompassing underwriting, market, investment, credit and operational risks.

Outlook

The stable outlook reflects the outlook on the sovereign rating and the company's stand-alone credit profile. We believe the likelihood of extraordinary government support for the company is "very high". We expect that China Life's stand-alone financial profile will remain strong, characterized by the company's strong capitalization and operating performance as well as solid competitive position.

We may raise the ratings on China Life if the company's stand-alone credit profile improves through strengthened risk management capabilities, characterized by ability to articulate its risk appetite and implementation of internal capital model. We may also raise the ratings if the insurer registers strong growth, backed by robust capitalization and supportive operating performance.

We may lower the ratings on China Life if we believe that: (1) the company's earnings and capitalization have

significantly deteriorated; (2) the likelihood of extraordinary government support has fallen; or (3) the sovereign ratings are lowered.

Table 1

China Life Insurance Co. Ltd.'s Selected Statistics					
(Mil. RMB)	June 2010*	2009	2008	2007	2006
Total assets	1,320,354	1,226,257	987,493	933,704	764,395
Total premiums	183,614	275,970	265,656	111,886	99,417
Pretax net income	21,603	41,745	19,959	45,391	25,605
Insurance funds	1,010,681	885,627	728,194	610,604	553,488
Shareholders' funds	191,739	211,072	173,947	205,500	139,665

*Data as at June 30, 2010. Notes: 2010, 2009 and 2008 data are based on International Financial Reporting Standards. 2007 and before are based on Hong Kong Financial Reporting Standards; all indicators are based on Standard & Poor's calculation methods. RMB--Chinese renminbi.

Table 2

China Life Insurance Co. Ltd.'s Business Statistics					
(Mil. RMB)	June 2010*	2009	2008	2007	2006
Total premiums	183,614	275,970	265,656	111,886	99,417
Investment income plus realized and unrealized gains or losses	30,612	61,583	31,788	78,248	46,581

Premium income by class (%)

Individual life	95.6	94.8	94.9	81.7	80.6
Term life	0.4	0.3	0.1	0.2	0.2
Whole life	10.0	13.7	13.3	28.5	28.2
Endowment	71.8	67.0	70.8	36.0	43.8
Annuity	13.4	13.8	10.7	17.0	8.3
Group life	0.2	0.1	0.1	0.8	1.2
Short-term	4.3	5.1	5.0	10.6	11.2
Policy fee	-	-	-	6.9	7.1
Total	100.0	100.0	100.0	100.0	100.0

*Data as at June 30, 2010. Notes: 2010, 2009 and 2008 data are based on International Financial Reporting Standards. 2007 and before are based on Hong Kong Financial Reporting Standards; all indicators are based on Standard & Poor's calculation methods. RMB--Chinese renminbi.

Table 3

China Life Insurance Co. Ltd.'s Operating Statistics					
(Mil. RMB)	June 2010*	2009	2008	2007	2006
Net profit before tax (mil. RMB)	21,603	41,745	19,959	45,391	25,605
Post-tax return on average assets (%)	2.85	2.98	2.05	4.60	3.03
Acquisition and administration expenses/net premiums (%)	12.19	15.10	15.39	25.03	22.17
Total policy payments/net premiums (%)	92.36	91.19	87.99	96.79	91.92
Net profit after tax (mil. RMB)	18,034	32,881	19,137	38,879	19,956

*Data as at June 30, 2010. Notes: 2010, 2009 and 2008 data are based on International Financial Reporting Standards. 2007 and before are based on Hong Kong Financial Reporting Standards; all indicators are based on Standard & Poor's calculation methods. RMB--Chinese renminbi.

Table 4

China Life Insurance Co. Ltd.'s Investment Statistics					
(Mil. RMB)	June 2010*	2009	2008	2007	2006
Total invested assets	1,260,118	1,180,615	945,294	856,659	692,875
Investment income plus realized and unrealized gains or losses	30,612	61,583	31,788	78,248	46,581
Investment return (including gains) (%)	5.02	5.79	3.53	10.1	7.85
Investment return (excluding gains) (%)	4.05	3.66	4.99	5.68	4.2
Investment portfolio mix (%)					
Cash and deposits	37.46	32.81	28.40	23.31	33.35
Debt securities	47.80	49.32	60.92	51.73	51.65
Equity securities	11.00	15.20	7.94	22.78	13.78
Loans	2.36	1.95	1.90	0.84	0.34
Securities purchased under agreements to resell	0.02	-	-	0.59	
Investments in associated companies	1.36	0.72	0.83	0.75	0.88
Total	100.00	100.00	100.00	100.00	100.00

*Data as at June 30, 2010. Notes: 2010, 2009 and 2008 data are based on International Financial Reporting Standards. 2007 and before are based on Hong Kong Financial Reporting Standards; all indicators are based on Standard & Poor's calculation methods. RMB--Chinese renminbi.

Table 5

China Life Insurance Co. Ltd.'s Capital Statistics					
(Mil. RMB)	June 2010*	2009	2008	2007	2006
Total assets	1,320,354	1,226,257	987,493	933,704	764,395
Total insurance funds	1,010,681	885,627	728,194	610,604	553,488
Other liabilities	116,274	127,854	84,428	116,724	70,702
Total shareholders' equity	193,399	212,776	174,871	206,376	140,205
Total shareholders' equity/total assets (%)	14.65	17.35	17.71	22.10	18.34
Total shareholders' equity/total insurance funds (%)	19.14	24.03	24.01	33.80	25.33

*Data as at June 30, 2010. Notes: 2010, 2009 and 2008 data are based on International Financial Reporting Standards. 2007 and before are based on Hong Kong Financial Reporting Standards; all indicators are based on Standard & Poor's calculation methods. RMB--Chinese renminbi.

Ratings Detail (As Of December 30, 2010)*

Operating Company Covered By This Report

China Life Insurance Co. Ltd.

Financial Strength Rating

Local Currency

AA-/Stable/--

Counterparty Credit Rating

Local Currency

AA-/Stable/--

Domicile

China

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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