

Operator: Ladies and gentlemen, thank you for standing by for Fanhua's First Quarter 2020 Earnings Conference Call. After the management's prepared remarks, there will be a question-and-answer session. For your information, this conference call is now being broadcasted live over the Internet. Webcast replay will be available within hours after the conference is finished. Please visit Fanhua's IR website at [ir.fanhua.com](http://ir.fanhua.com) under the Events & Webcasts section. Today's conference is being recorded. If you have any objections, you may disconnect at this time.

Now I'd like to turn the meeting over to your host for today's conference, Ms. Oasis Qiu, Fanhua's Investor Relations Manager.

Oasis Qiu: Good morning. I hope everyone is staying safe and healthy. Welcome to our First Quarter 2020 Earnings Conference Call. The earnings results were released earlier today and are available on our IR website as well as on Newswire.

Before we continue, please note that the discussion today will contain forward-looking statements made under the safe harbor provisions of the United States Private Securities Litigation Reform Act of 1995. The accuracy of the statements may be impacted by a number of business risks and uncertainties that could cause our actual results to differ materially from those projected or anticipated. Such risks and uncertainties include, but not limited to, those outlined in our filings with the SEC, including our registration statement on Form 20-F. We do not undertake any obligation to update this forward-looking information except as required under applicable law.

Joining us today are our Chief Executive Officer, Mr. Chunlin Wang; Chief Financial Officer, Mr. Peng Ge. Mr. Wang will provide a review of our financial and operational highlights in the first quarter 2020. There will be a Q&A session after the prepared remarks.

Now I will turn the call over to Mr. Wang.

Chunlin Wang: Thank you for joining us on today's conference call. Here with me, we have our Chief Financial Officer, Mr. Peng Ge. We will begin today's call with an overview of our first quarter 2020 financial and operational results and our take on long-term trends. Mr. Ge and I will take your questions after the report.

Chunlin Wang: Fanhua outperformed the industry and overcame the tough challenge of COVID-19.

Chunlin Wang: Global economy has been hit hard by the COVID-19 outbreak, and the life insurance industry has also been severely challenged.

Chunlin Wang: In the first quarter of 2020, premiums of China's life insurance industry grew by 2.7% year-on-year, while Fanhua's life insurance business grew by 9.3% year-on-year to CNY 2.4 billion in gross written premiums, outpacing the industry growth. After CNY 2.4 billion, first year regular premiums were CNY 500 million, while renewal insurance premiums were CNY 1.88 billion.

Chunlin Wang: Operating profit exceeded expectations, verifying the snowballing effect of our profit model.

Chunlin Wang: Affected by the pandemic, a large number of enterprises at home and abroad have suffered severe losses, with many struggling to survive. Against this backdrop, Fanhua still realized operating profit of CNY 60 million and net operating cash inflow of CNY 134.6 million, which fully verified the snowballing effect of Fanhua's profit model and confirmed the tenacity and strength of its business model.

Chunlin Wang: Fanhua's business operation model of integrating offline to online has matured, representing the most advanced productivity in the industry.

Chunlin Wang: We firmly believe that the integrated offline-to-online model is the most scientific model for the distribution and services of long-term life insurance. Over the past 6 years, Fanhua has been committed to pursuing the integrated offline-to-online model, which, during this outbreak, has been fully verified as the most scientific way for insurance sales and services. Any model that operates solely online or offline will find it difficult to maintain competitiveness and sustain development.

Chunlin Wang: In the face of pandemic, we have carried out our operational activities such as training, marketing, agent recruitment, customer acquisition, sales practices and completion of transactions in an integrated online and offline model by leveraging our strength in digital technologies and extensive offline distribution and service network in order to minimize the impact of the COVID-19 outbreak to the greatest extent. At the end of April, the average daily visits of Lan Zhanggui exceeded 230,000 times. There were also more than 12,000 online training hosted, attracting more than 1.6 million online attendance. In addition, more than 10,000 product workshops, entrepreneur agent recruitment workshops and client engagement activities were hosted by our agencies nationwide, attracting a total of over 1 million attendance.

Chunlin Wang: Despite uncertainties brought by the global pandemic, by taking effective countermeasures, Fanhua is confident that it will outpace industry growth and achieve positive quarter-over-quarter growth in the second quarter of 2020.

Chunlin Wang: Previously, we have predicted that the COVID-19 outbreak would be nearly over in China by the end of March so our business could start to recover rapidly in the second quarter. However, as the pandemic ramped around the world, the resumption of work and production in China has been constrained to a certain degree. Offline business activities originally planned such as agent recruitment, training, product seminars, entrepreneur agent seminars cannot be carried out, which, to a certain extent, affected interactions between our sales agents and customers, resulting in a decline in the proportion of high-ticket savings-type insurance products. For example, in the first quarter of 2020, the proportion of annuity insurance and whole life insurance products in terms of APE decreased to 26.3% in the first quarter of 2020 from 54.1% in previous quarter, while critical illness insurance sales increased from 44.2% to 71%. Similarly, it is expected to continue to pose a significant impact on our second quarter results. However, with the end of the pandemic, the sales of savings-type insurance products is set to rebound significantly, driving business growth.

Chunlin Wang: Since the outbreak, Fanhua has responded with scientific and vigorous countermeasures, including introducing for supportive policies for our employees and agents, which committed to no layoff, no pay cut, provision of care subsidy for employees and agents impacted with coronavirus and alleviation for entrepreneurial terms to support business development. These policies have been well recognized by the community, industry and all Fanhua team members. They also help keep our employees and agents united and motivated. Since the beginning of May, our agents across China have gradually resumed offline trainings, agent recruitment and sales activities. We remain optimistic about getting our business development back to normal soon.

Chunlin Wang: For the second quarter of 2020, we expect APE will be no less than CNY 350 million, and operating income will be no less than CNY 70 million.

Chunlin Wang: As insurance industry is essential for Fanhua's -- China's vision to develop into a financial powerhouse, we firmly believe that a rapid growth trend of China's insurance industry remains unchanged in the long term. After the outbreak, consumers' risk awareness will also be quickly enhanced, and active insurance practices will become a trend, which will usher in immense growth opportunities for Fanhua.

Chunlin Wang: Continued quarterly dividend policy. Despite the uncertainty caused by the outbreak, the company still has the confidence to maintain profitability and stable cash flow. Therefore, the management reiterates that the company's quarterly dividend policy will remain unchanged.

Chunlin Wang: Dividend for the first quarter of 2020 is USD 0.25 per ADS, payable on or around June 24, 2020 to shareholders of record on June 10, 2020.

Chunlin Wang: This concludes my presentation. Now the floor will open for your questions.

Christian, we can start the Q&A section.

Q&A Session:

Operator: The first question comes from the line of Xue Yuan from CICC.

Yuan Xue:

I have 2 questions here. The first question is regarding to the resumption of work by agents in May. I wonder how is it compared with the normal business level.

And then secondly, there was a loss from CNFinance in the first quarter. When CNFinance will be expected to return to profit.

Chunlin Wang: As I mentioned just now, we have resumed offline business activities since May. However, those offline activities are still subject to some kind of restrictions. For example, the government may impose some restrictions on the size of the number of the gathering. And in certain regions, gatherings are still subject to approval by the local government. And in addition to that, the agents themselves are also still kind of reluctant to join offline activities immediately.

Chunlin Wang: And offline activities may not equal to full resumption of work and may be better quantified by our business results. According to our preliminary results in May, our new sales has returned to about 80% of our normal level.

Chunlin Wang: I would like to invite Mr. Ge to answer the second questions.

Ge Peng: Oasis Qiu: The loss from CNFinance is mainly due to the impact from COVID-19. As you know, CNFinance mainly originated loans to micro and small business owners, and these business owners will apply for the loans with their personal residential house as the security to guarantee the repayment of the loan. And due to the COVID-19, the income for small business owners has dropped significantly in the first quarter. So the number of delinquency of loans has also increased in the first quarter. And in addition to that, there was a new accounting rule implemented in January 1, which is the CECL, i.e. the current expected credit loss accounting model, which will require CNFinance to take into account the deterioration of the future economic outlook due to the COVID-19. So with this more stringent accounting policy, CNFinance increased their allowance for nonperforming loans, so that's the main reason for the loss.

Ge Peng: In addition to that, CNFinance also faced some difficulties in full resumption of work and engagement with customers offline. So they expect that the delinquency or the nonperforming loans may further increase in the second quarter, but they do expect that things will improve in the third quarter. Having said that, the loans that they originated to the small business owners are all secured by personal residential house with the loan-to-value ratio at around 60% to 70%. So even though with the allowance for the delinquency loans, their credit quality remains good. Thank you.

Operator: The next question comes from the line of Debra Fiakas from Crystal Equity Research.

Debra Ann Fiakas: I have 2 questions. The first is in regard to the unemployment that has resulted because of the pandemic. And I was hoping that you might educate an American a bit on how Chinese people handle an unemployment situation. Does the Chinese consumer prioritize insurance? Is there any reason to be concerned

that you might see a negative impact on renewal premiums because people are not able to pay their premiums? Or do they set it a very high priority and make certain that bill is paid?

And then my second question is in regard to something that is in the press release regarding gross written premiums. I noted that that had increased. And I wondered if you could help me by defining what gross written premiums are. Are they policies that have been written but have not yet been paid?

Chunlin Wang: It's kind of difficult for us to define unemployment in China. In China, many people actually also own a land in the rural areas. So in addition to a job in the city, they may also keep a land and can work as farmers when they come out of job. So in China, we don't see a huge pressure in unemployment rate and -- as many people they don't really live on social alleviation fund, and they have other means to make a living.

Chunlin Wang: As we mainly focus on selling long-term life insurance business, so renewal rate is a crucial metrics for us. And it's true that the COVID-19 has posed some pressures on the persistency ratio on the renewal ratio, especially for the larger-ticket insurance policies. We do face some cases of some insured facing difficulties to pay for their renewal premiums as some of them are business owners because they lost a lot of income due to the COVID-19, so they have difficulty for a short period. But we are trying to make some arrangement to help them to pay the renewal premiums on time. In addition, having said that, please note that China is a country with a lot of people, have a lot of savings. So 6 months of COVID-19 doesn't really pose a huge impact on the renewal ratio.

Chunlin Wang: Based on our first quarter results, our 13-month persistency ratio in the first quarter 2020 is much similar to that level last year.

Chunlin Wang: Which is over 90%.

Chunlin Wang: In terms of gross written premiums, we only take into account the premiums paid for the regular insurance policies.

Chunlin Wang: This premium doesn't include those premiums for short-term products. And the total written gross premiums includes new first year premiums and the renewal premiums, which are already paid and settled with insurance companies.

Chunlin Wang: So which means those are the premiums for all the valid insurance policies. Thank you.

Operator: (Operator Instructions) There are no further questions at this time. I would now like to hand the conference back to today's presenters. Please continue.

Oasis Qiu: Thank you for joining us on today's conference call. If you have any further questions, please feel free to contact me. Thank you.

Operator: Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.

[Portions of this transcript is edited for the convenience of readers. Any discrepancy please refer to the live call]