

# Pearl River Life Insurance Co., Ltd.'s 2019-1 Capital Supplementary Bond

## Ratings

Long-term credit rating of the issuer: AA  
 Credit rating of the bond: AA-  
 Rating outlook: Stable

## Date of Rating

March 13, 2019

## Key data

Item	End of Jun 2018	End of 2017	End of 2016	End of 2015
Total assets (CNY 100mn)	647.76	702.08	521.33	614.11
Total liabilities (CNY 100mn)	578.85	630.91	450.53	574.54
Provisions for insurance contracts (CNY 100mn)	229.98	264.19	154.19	4.91
Shareholders' equity (CNY 100mn)	68.90	71.17	70.79	39.57
Registered capital (CNY 100mn)	67.00	67.00	67.00	47.50
Solvency adequacy ratio (%)	-	-	-	592.26
Core solvency adequacy ratio (%)	88.85	87.42	111.55	-
Overall solvency adequacy ratio (%)	103.42	101.94	124.48	-
Item	Jan-Jun 2018	2017	2016	2015
Revenue (CNY 100mn)	58.63	150.09	184.92	25.93
Premiums earned (CNY 100mn)	39.50	102.49	150.93	1.19
Net profit (CNY 100mn)	-0.35	-0.70	5.38	0.42
Investment income (CNY 100mn)	14.89	42.51	33.34	24.42
Returns on invested assets (%)	5.26	8.72	9.30	9.31
Overall surrender rate (%)	21.31	18.27	0.74	2.58
Overall expense ratio (%) and commissions ratio (%)	-	13.00	8.49	567.40
	-	4.46	3.45	52.93
ROTA (%)	-	-	0.95	0.11
ROE (%)	-	-	9.75	1.37

Source: Provided by Pearl River Life Insurance, compiled by Lianhe Ratings.

Notes: 1. Core solvency adequacy ratio and overall solvency adequacy ratio are calculated using the techniques outlined in the *Rules Regulating the Solvency of Insurance Companies* (No. 1-17) (CIRC [2015] No. 22); 2. Financial data for the first half of 2018 are unaudited.

## Analysts

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## Rationale

Established in 2012, Pearl River Life Insurance Co., Ltd.'s ("Pearl River Life" or the "Company") capital strength has continued to improve by means of capital raising and share-offering programs, and its overall ranking has been climbing steadily. In recent years, the Company has continually improved its corporate governance mechanism and risk control system, providing strong assurance for its business development. With its insurance business revenue and total premium growing rapidly, the Company has continually boosted its market competitiveness and remained competitive in winning premiums via bancassurance channels in Guangdong province. Pearl River Life has been adjusting its business structure since 2016, which improved its product structure. Investment income is high compared with its industry peers. On the other hand, the Company's insurance business mainly relies on bancassurance channels, while its other channels need to be further developed. Given its massive investment in equity, real estate and other types of financial assets, the Company should keep a close eye on market risk, counterparty credit risk and asset liquidity risk. It also faces pressure to replenish capital since its overall solvency adequacy ratio is coming close to the regulatory red line of 100% and its biggest shareholder is subject to restrictions on pumping more money into the Company.

Taking all the above into consideration, China Lianhe Credit Rating Co., Ltd. has affirmed Pearl River Life Insurance Co., Ltd.'s long-term credit rating at "AA" and the credit rating of its proposed 2019-1 capital supplementary bond of CNY 1.8 billion at "AA-". The Outlook is Stable. The ratings reflect that the default risk of the said capital supplementary bond is very low.

insurance industry.

### **Strengths**

- The Company's senior management adopts market-oriented operation and complies with the regulatory requirements, with a view to improving its corporate governance;
- With continuous optimization of its insurance business structure, both its share of the original insurance premium market and its overall ranking have kept climbing;
- Since its insurance business via the bancassurance channel has been developing rapidly, the Company is a competitive life insurance provider in Guangdong province;
- Investment returns are high compared with its industry peers, thanks to its diversified asset allocation system;
- The domestic insurance market has great potential for development and enjoys promising prospects, thanks to favorable policies and appropriate regulation.

### **Concerns**

- Given its massive investment in equity, real estate and other types of financial assets, the Company should keep a close eye on market risk, counterparty credit risk and asset liquidity risk;
- Single premium still accounts for a significant portion of its business structure , leading to quick capital consumption;
- The Company faces pressure to replenish capital since its overall solvency adequacy ratio is coming close to the regulatory red line and its biggest shareholder is subject to restrictions on pumping more money into the Company;
- Factors such as premium rate reform, increasingly fierce competition and capital market volatilities could weigh on the profitability and risk management of the life