中国人民保险集团股份有限公司

THE PEOPLE'S INSURANCE COMPANY (GROUP) OF CHINA LIMITED

Stock Code：1339

Annual Report 2012

Company Profile

Founded in October 1949, The People's Insurance Company (Group) of China Limited (the "Company") was the first nation-wide insurance company in the People's Republic of China ("PRC") and has developed into a leading large-scale integrated insurance financial group in the PRC, ranking 292nd on the Global 500 (2012) published by Fortune magazine.

The Company is an investment holding company. The Company operates its property and casualty ("P&C") insurance business in the PRC through PICC Property and Casualty Company Limited ("PICC P&C") and in Hong Kong through The People's Insurance Company of China (Hong Kong), Limited ("PICC Hong Kong"), in which the Company holds approximately 68.98% and 75.0% equity interests, respectively. The Company operates its life and health insurance businesses through PICC Life Insurance Company Limited ("PICC Life") and PICC Health Insurance Company Limited ("PICC Health"), in which the Company directly and indirectly holds 80.0% and approximately 91.67% equity interests, respectively. The Company centrally manages most of the insurance assets through investment platforms including PICC Asset Management Company Limited ("PICC AMC"), in which the Company holds 81.0% equity interest. The Company has also made strategic investments in non-insurance financial businesses such as banking and trust.

The Company's principal competitive strengths include:

- We are the pioneer of the PRC insurance industry, possessing a well-recognized brand with the longest history in the industry.

- We are an integrated insurance financial group focusing on our core business, occupying a leading position in the rapidly developing Chinese insurance market.

- We have a strategically balanced business structure, an extensive nation-wide distribution and service network and a wide customer base, contributing to our ability to achieve rapid development in business and stable growth in profits.

- We have the capability to synchronize our business growth with the overall economic and social development of the PRC and develop innovative business models in response to such development.

- We have implemented efficient management at the group level to effectively improve synergies among different business lines and improve our overall operational efficiency.

- We have strong professional technical skills and product and service innovation capabilities.

- We have an industry-leading asset management platform and have undertaken strategic planning in the non-insurance financial areas.

- We have an experienced and insightful management team.

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Financial Highlights

Highlights of historical financial information of the Company as of the end of the reporting periods

Unit: RMB in millions, except for percentages

	2012	2011	Year-on-year (%)	2010	2009
Group consolidation					
Total assets	**688,650**	585,152	17.7	442,879	306,343
Total liabilities	**605,308**	537,217	12.7	406,166	272,062
Total equity	**83,342**	47,935	73.9	36,713	34,281
Gross written premiums	**265,216**	249,047	6.5	229,440	168,552
Net profit	**10,144**	7,897	28.5	5,847	1,751
Net profit attributable to equity holders of the Company	**6,832**	5,185	31.8	3,987	1,108
Earnings per share (RMB)	**0.20**	0.16	22.6	0.13	0.04
Net assets value per share (RMB)	**1.54**	0.91	69.2	0.76	0.72
Weighted average return on equity (%)	**18.2%**	19.0%	Decrease of 0.8 pt	17.60%	5.70%

Mr Wu Yan
Chairman of the Board

2012 was a significant year in the development of the Company and its subsidiaries (the "Group") and has witnessed fruitful results and brilliant achievements of the Group.

Over the past year, despite adverse factors such as the continued global financial crisis, increased down trend of domestic economy and challenges to the insurance industry, we have adhered to "transforming growth patterns to promote development and strengthening compliance to increase operating profitability" as our key aspirations guided by the scientific development principle, and focused more on enhancing our value-creation ability. As a result, we have had a new peak in our overall profitability and maintained stable growth in revenue, and further strengthened operation synergies and significantly enhanced our inherent quality.

In 2012, we successfully completed our initial public offering ("IPO"), the largest IPO of the year in Asia (excluding Japan), which is a new milestone in the development of the Group.

In 2012, the Group constantly improved its profit-making abilities, and its overall profitability hit a new peak. The Group strived to maintain its diversified profit-making patterns, focused on improving operating efficiency, and realized a net profit of RMB10.14 billion and a net profit attributable to shareholders of RMB6.83 billion, respectively, representing a year-on-year increase of 28.5% and 31.8%, respectively. The Group has also achieved an industry-leading return on equity of 18.2%. Meanwhile, by constantly enhancing the foundation of its profitability, PICC P&C recorded a combined cost ratio of 95.1%, much lower than the industry average, and achieved an annual underwriting profit of RMB7.58 billion, representing more than half of annual underwriting profit achieved by the P&C insurance industry in the PRC. PICC Life recorded a net profit of RMB760 million, representing a year-on-year growth of 37.9% from 2011, since which year it recorded accumulative net profit ahead of schedule. The net investment yield of the Group was 4.6%, 0.3 percentage point higher than 2011. In the performance evaluation of financial enterprises conducted by the Ministry of Finance of the People's Republic of China ("MOF") in October 2012, the Group received the highest rating of "Excellent (Class A Grade AAA)", and was the only PRC insurance company that received such rating.

In 2012, the Group effectively promoted steady growth of its business and continued to enhance its market-leading position in PRC insurance industry. The Group strived to maintain sustainable and steady growth in long term, continued to change its growth pattern through structural adjustments and successfully achieved progress while maintaining stability. In 2012, the Group received gross written premiums ("GWPs") of RMB265.22 billion and its total assets reached RMB688.65 billion as of 31 December 2012, representing a year-on-year growth of 6.5% and 17.7%, respectively. GWPs from our P&C insurance business amounted RMB193.59 billion, representing a year-on-year growth of 11.2%, which further enhanced our market-leading position in P&C insurance industry. In addition, the Group further optimized the structure of its life insurance business and recorded an original premium income of RMB64.03 billion, which ranked fifth in the life insurance industry, and total written premiums ("TWPs") from new life insurance policies of RMB71.09 billion, which ranked second in the life insurance industry for three consecutive years. The Group further strengthened its advantage in health insurance business and achieved an original premium income of RMB7.6 billion, representing a year-on-year growth of 65.4%.

In 2012, the Group continued to promote integration and resource sharing and further strengthened its operating synergies. First, the Group has for the first time achieved centralization of its insurance business production system on a national level. The Group strived to promote the integration of information resources, and successfully completed centralization of the key business system of its subsidiaries. The Group has therefore realized its interim goal of information technology reform, which is a meaningful step towards the goal of "national centralization". **Second**, the Group has achieved remarkable breakthrough in cross-selling. In 2012, its TWPs from cross-selling amounted to RMB15.44 billion, representing a year-on-year growth of 45.9%, which has played an important role in ensuring a stable business development in an extremely challenging situation. **Third**, the Group had significant achievements in building networks in rural areas. The Group endeavored to build an integrated sales and service platform that was rooted in and designed to serve the rural areas. By the end of 2012, the Group has built over 3,000 service stations in rural areas with a team of more than 10,000 people.

In 2012, the Group further strengthened its internal control and compliance efforts and effectively enhanced its risk management and control capabilities. We believe that internal control and compliance create value and consider risk prevention and operation in compliance with law a key element in our sustainable development. **First**, the Group promoted the construction of the risk management IT system. The Group strengthened monitoring key risks by developing the management system for internal control and compliance and the monitoring and pre-warning system of risk indicators. **Second**, the Group strived to resolve problems in claims settlement and sales misrepresentation. In accordance with relevant regulatory requirements, the Group focused on rectifying problems in claims settlement and resolving customer complaints. The claims settlement turnover for motor vehicle insurance claims below RMB10,000 decreased by 35% compared to 2011 and the customer complaint rate for each RMB100 million of premiums of our P&C insurance and life and health insurance businesses were lower than the average complaint rate in the industry and our main competitors. **Third**, the Group strengthened its supervision and inspection efforts. The Group conducted inspections and audits over its subsidiaries, and strengthened supervision over the entire process of business operations and major projects to prevent and defuse the sources of all types of risks.

In 2012, the Group explored more development potentials and created unique value in taking social responsibilities. The Group has been integrating its own growth with economic and social development and creating unique value in its continued exploration of unprecedented ways to serve the economic and social development. **In serving "Sannong"**, namely, **agriculture, rural areas and farmers**, the Group has offered up to 80 types of agricultural insurance products throughout the year and achieved 130 million customer sales of agriculture insurance products with accumulative risk liabilities of RMB472.5 billion. In addition, the number of insured of the Group's rural housing insurance reached 67.16 million households with risk liabilities of RMB631.9 billion. **In terms of support and protection of forest tenure reform**, our annual insurance coverage of the total forest area was 520 million hectares, while regions where we offer central policy forest insurance have been expanded to 17 provinces (including autonomous regions or municipalities). **In serving the establishment of healthcare system**, the Group actively promoted the "Zhanjiang Model" in providing insurance services under the new healthcare reform and maximized the role of insurance in improving the healthcare system. The Group also promoted the "Taicang Experience" in offering critical illness insurance which provides practical experience for the establishment of critical illness insurance system.

In 2012, the Group successfully completed its IPO, a new milestone in its development. As the investors appreciate our investment theme "unrepeatable resource advantages and excellent value-creation capability", the Group successfully completed its IPO in Hong Kong on 7 December 2012, which became Asia's largest IPO (excluding Japan) in 2012 with a full exercise of green shoe option. The Group's capital strength has been significantly improved after the overall listing, which has laid a solid foundation for the rapid and healthy development of the Group's business.

2013 is the first full year of operation after the Group's IPO. Currently, the conditions and drivers for the Group's development are undergoing important changes. The deepening transformation and adjustments of China's economic and social development will promote structural changes in insurance demand. The competition pattern of the insurance industry is experiencing fundamental changes, as a result of which the management quality of an insurance company will directly affect its competitiveness in the market. Under the new circumstances, the Group decides that the theme of this year is "to maintain steady growth and focus on value creation", that is, to continue enhancing value-creation capability and strive to achieve faster growth in profitability than business size, while maintaining moderate business growth. To achieve this, **first**, we will maintain our achievements in transformation of operation and management pattern as well as structural adjustment and optimization; we will also improve and strengthen the weakness in value creation such as growth capacity, operating efficiency and profitability, and endeavor to transform benefit from growth into advantages in value creation to maximize the overall value of the Group. **Second**, we will strengthen the value-oriented management of budget and performance, and strengthen the tracking and feedback of the implementation of budgets; we will also balance the importance of budget management and the flexibility to respond to market change, make the realization of Group's overall budget goals prerequisite in the performance evaluation of our subsidiaries, and ensure the implementation of the Group's budget goals based on scientific performance evaluation and effective incentive mechanism. **Third**, we will constantly improve the Group's innovation ability, nurture a corporate culture that encourages innovation, focus on the realization of the Group's construction benefit, and continuously promote innovation in the Group's information management mechanism, resource integration, synergy mechanism and investment management mechanism; we will also focus on the exploration of and breakthrough in insurance function and mechanism to promote innovation of insurance function in general strategic planning, and concentrate on enhancing the quality of insurance services and promoting innovation in product and business model. **Fourth**, we will enhance compliance and risk prevention efforts and reinforce supervision over connected transactions to further monitor and manage key risks such as solvency, asset-liability matching and market risk; we will also strengthen prevention of operational risks in key positions, litigation risks, and business risks in the marketization of vehicle insurance rate, and effectively prevent risks in policy surrender and cash flow.

Our successful IPO is the beginning of a new stage in the Group's reform and development. Standing on this new starting point, we will confidently and continuously adhere to the principle of scientific development, focus on value creation, and diligently perform all our duties. We will continue to promote the steady growth of the Group's overall value, and reward our shareholders, our employees and the society with even better performance.

Chairman
WU Yan

Beijing, the PRC
23 April 2013

Honors & Awards

April 2012	"The Most Influential Brand" award for 2011-2012 among China's financial enterprises on the Financial Brand Management Conference of China jointly held by Chinese Academy of Social Sciences and China Marketing Association.
July 2012	Ranked 292nd on the Global 500 (2012) published by *Fortune* magazine.
August 2012	Ranked 37th on Top 500 Enterprises of China (2012).
August 2012	Ranked 16th on Top 500 Service Industry Enterprises of China (2012).
February 2013	The Company's H Share IPO was recognized as one of the "Deals of the Year 2012" by *Euromoney* magazine.

The Group is principally engaged in three major business lines, namely P&C insurance, life and health insurance and asset management, respectively, which are divided into four major operating segments for reporting purposes: our P&C insurance business constitutes our P&C insurance segment and includes PICC P&C and PICC Hong Kong, in which we hold 68.98% and 75.0% equity interests, respectively. Our life and health insurance business constitutes two separate segments, namely our life insurance segment and our health insurance segment, among which our life insurance segment includes PICC Life, in which we hold an 80.0% equity interest directly and indirectly, and our health insurance segment includes PICC Health, in which we hold a 91.67% equity interest directly and indirectly. The asset management business constitutes our asset management segment and primarily includes PICC AMC and PICC Investment Holding Co., Ltd. ("PICC Investment Holding"), which are 81.0% and 100.0% owned by us, respectively.

KEY OPERATING INDICATORS

(1) Information of the principal business

Unit: RMB in millions, except for percentages

	For the year ended 31 December/ As of 31 December		
	2012	2011	Year-on-Year (%)
Original Premiums Income [1]			
PICC P&C	**193,018**	173,553	11.2
PICC Life	**64,030**	70,361	(9.0)
PICC Health	**7,600**	4,596	65.4
Market share [1]			
PICC P&C (%)	**34.9**	36.3	Decrease of 1.4 pt
PICC Life (%)	**6.4**	7.4	Decrease of 1.0 pt
PICC Health (%)	**0.8**	0.5	Increase of 0.3 pt
Combined ratio of PICC P&C (%)	**95.1**	94.0	Increase of 1.1 pt
Embedded Value of PICC Life	**30,906**	22,685	36.2
Embedded Value of PICC Health	**4,569**	2,907	57.2
Value of one year's new business of PICC Life	**4,031**	3,713	8.6
Value of one year's new business of PICC Health	**738**	806	(8.4)
Total investment yield	**4.2**	3.6	Increase of 0.6 pt

(1) According to the statistics and measurement of the original premiums income in the PRC (excluding Hong Kong, Macau and Taiwan) published by China Insurance Regulatory Commission ("CIRC"), the market share percentage of PICC P&C represents its market share among all P&C insurance companies, and the market share percentages of PICC Life and PICC Health represent their respective market share among all life and health insurance companies.

In 2012, leveraging upon the efficient management of various business lines of the Group and synergistic operations of different business lines, we continued to maintain a leading market position in the insurance industry of the PRC and strong competitive advantages while the businesses of P&C insurance and life and health insurance maintained a balanced development. In 2012, the market share of PICC P&C was 34.9%, the market share of PICC Life was 6.4% and the market share of PICC Health was 0.8%. According to the statistics of the TWPs, the TWPs of the PICC P&C, PICC Life and PICC Health amounted to RMB193.018 billion, RMB77.967 billion and RMB11.631 billion, respectively. Meanwhile, we promoted cross-selling proactively, and the TWPs generated by cross-selling among our business lines grew by 45.9% to RMB15.440 billion in 2012 from RMB10.586 billion in 2011, which achieved continuous rapid growth. In 2012, the number of policyholders who purchased any two or more types of our P&C insurance, life insurance or health insurance products reached 2.07 million, representing a year-on-year growth of 42.5%, and the number of policies purchased by these policyholders increased to 3.93 on average.

(2) Key financial indicators

Unit: RMB in millions, except for percentages

	For the year ended 31 December/ As of 31 December		
	2012	2011	Year-on-Year (%)
Total assets	**688,650**	585,152	17.7
Total liabilities	**605,308**	537,217	12.7
Total equity	**83,342**	47,935	73.9
Gross written premiums	**265,216**	249,047	6.5
P&C Insurance	**193,586**	174,089	11.2
Life Insurance	**64,030**	70,361	(9.0)
Health Insurance	**7,600**	4,596	65.4
Profit before tax	**13,320**	10,210	30.5
Net profit	**10,144**	7,897	28.5
Net profit attributable to equity holders of the Company	**6,832**	5,185	31.8
Earnings per share (RMB)	**0.20**	0.16	22.6
Net assets per share (RMB)	**1.54**	0.91	69.2
Weighted average return on equity (%)	**18.2%**	19.0%	Decrease of 0.8 pt

Benefiting from expansion in our businesses, the total asset portfolio of the Group achieved stable growth. After our H shares were listed in 2012, the capital base and share capital of the Group were further strengthened in which total equity grew by 73.9% to RMB83.342 billion in 2012 from RMB47.935 billion in 2011. In 2012, the Group realized GWPs of RMB265.216 billion, representing a year-on-year growth of 6.5%. Benefiting from the fast development and the improved profitability of the P&C insurance business and the life and health insurance business, our net profit grew by 28.5% to RMB10.144 billion in 2012 from RMB7.897 billion in 2011. Profit attributable to equity holders of the company grew by 31.8% to RMB6.832 billion in 2012 from RMB5.185 billion in 2011. The weighted average return on equity in 2012 was 18.2%, which represents a decrease of 0.8 percentage points compared to the same period of last year.

After the Company completed the listing of H Shares at the end of 2012, our net assets expanded significantly. Net assets per share increased to RMB1.54 in 2012 from RMB0.91 in 2011. Benefiting from the rapid growth of profit level, there was also a substantial growth in the Group's earnings per share, which increased by 22.6% to RMB0.20 per share in 2012 from RMB0.16 per share in 2011.

P&C INSURANCE BUSINESS

In 2012, the P&C insurance segment of the Group followed to the operation principle of "Fostering development through a shift in approach, enhancing efficiency by strengthening control", which further reinforced our development capability and further enhanced our internal quality with brilliant business results, and the Group continued to lead the non-life insurance market in China.

(1) Analysis by Product

The following table sets forth by product the GWPs from P&C insurance segment of the Group for the periods indicated:

Unit: RMB in millions, except for percentages

	For the year ended 31 December		
	2012	2011	Year-on-Year (%)
Motor vehicle insurance	**141,751**	128,055	10.7
Commercial property insurance	**12,295**	11,874	3.5
Liability insurance	**7,413**	6,481	14.4
Accidental injury and health insurance	**6,484**	5,343	21.4
Cargo insurance	**3,848**	4,055	(5.1)
Other P&C insurance	**21,793**	18,281	19.2
Total	**193,586**	174,089	11.2

GWPs for our P&C insurance segment increased by 11.2% to RMB193.586 billion in 2012 from RMB174.089 billion in 2011. The overall steady business growth was largely driven by the motor vehicle insurance and agriculture insurance businesses, and the relatively rapid growth in the accidental injury and health insurance, liability insurance as well as credit and surety insurance etc..

GWPs for motor vehicle insurance increased by 10.7% to RMB141.751 billion in 2012 from RMB128.055 billion in 2011. In 2012, the growth of domestic automobile production and sales continued to slow down, and the "purchase restriction policy" was implemented in some cities, which resulted in intensified competition in the market of motor vehicle insurance. The P&C insurance segment has put increasing efforts to leverage on existing businesses while proactively implementing aggressive market strategies at the same time.

GWPs for commercial property insurance increased by 3.5% to RMB12.295 billion in 2012 from RMB11.874 billion in 2011. In 2012, the P&C insurance segment actively strengthened the traditional business of commercial property insurance while exploring opportunities for new businesses development.

GWPs for liability insurance increased by 14.4% to RMB7.413 billion in 2012 from RMB6.481 billion in 2011. In 2012, the P&C insurance segment has actively and extensively cooperated with competent authorities, cultivated the demand which gave strong impetus to the steady growth of medical liability insurance, safety production liability insurance, public liability insurance, employer liability insurance and freighter liability insurance businesses.

GWPs attributable to other P&C insurance in our P&C insurance segment increased by 19.2% to RMB21.793 billlion in 2012 from RMB18.281 billion in 2011. In 2012, the construction of a sales and service system for the Sannong insurance business was basically completed, efforts in developing agricultural insurance supported by fiscal policies of the PRC Government and agricultural insurance with local features were enhanced, and agricultural insurance business of other P&C insurance grew continuously and rapidly.

(2) Analysis by channel

The following table sets forth the breakdown of original premiums income of PICC P&C by distribution channel for the periods indicated, which can be specifically divided into insurance agency, direct sales and insurance brokerage. By increasing contributions from new channels including telemarketing and online sales, the original premiums income from telemarketing and online sales has reached RMB28.090 billion in 2012.

Unit: RMB in millions, except for percentages

	For the year ended 31 December				
	2012			2011	
	Amount	Percentage (%)	Growth rate (%)	Amount	Percentage (%)
Insurance agents	124,389	64.5	1.8	122,171	70.4
Among which:					
Individual insurance agents	69,279	35.9	(4.2)	72,304	41.7
Ancillary insurance agents	45,729	23.7	13.6	40,238	23.2
Professional insurance agents	9,381	4.9	(2.6)	9,629	5.5
Direct sales	57,599	29.8	40.4	41,034	23.6
Insurance brokerage	11,030	5.7	6.6	10,348	6.0
Total	193,018	100.0	11.2	173,553	100.0

(3) Financial Analysis

The following table sets forth certain selected key financial information of the P&C insurance segment for the periods indicated:

Unit: RMB in millions, except for percentages

	For the year ended 31 December		
	2012	2011	Year-on-Year (%)
Net earned premiums	**155,787**	133,559	16.6
Investment income	**7,522**	3,969	89.5
Other income	**935**	820	14.0
Total income	**174,207**	151,145	15.3
Claims and policyholders' benefits	**99,031**	87,844	12.7
Handling charges and commissions	**17,044**	14,679	16.1
Finance costs	**1,633**	1,319	23.8
Other operating and administrative expenses	**43,193**	36,753	17.5
Insurance business expenses and other expenses	**160,914**	140,922	14.2
Profit before tax	**13,359**	10,331	29.3
Income tax expense	**(2,952)**	(2,266)	30.3
Net profit	**10,407**	8,065	29.0

Net earned premiums

Benefiting from the growth of motor vehicle insurance and agricultural insurance as well as the rapid development in the businesses of accidental injury and health insurance, liability insurance and credit and surety insurance, net earned premiums from our P&C insurance segment increased by 16.6% to RMB155.787 billion in 2012 from RMB133.559 billion in 2011.

Investment income

Investment income of the P&C insurance segment increased by 89.5% to RMB7.522 billion in 2012 from RMB3.969 billion in 2011. In 2012, while the P&C insurance segment was optimizing the structure of investment assets allocation, it effectively enhanced the efficiency of capital utilization, expanded the scale of its investment assets and increased its allocation of negotiated deposits continuously, constantly improved the yield rate of debt securities held. Through optimizing equity investment types and actively participating in infrastructure debt investment programs, the P&C insurance segment was able to lower the risks of the investment assets portfolio and uplift investment returns effectively.

Claims and policyholders' benefits

Claims and policyholders' benefits for the P&C insurance segment increased by 12.7% to RMB99.031 billion in 2012 from RMB87.844 billion in 2011. The claim ratio of PICC P&C decreased by 2.2 percentage points to 63.6% in 2012 from 65.8% in 2011, which was mainly due to the decrease in the claim ratio of motor vehicle insurance, liability insurance, accidental and health insurance and cargo insurance.

Handling charges and commissions

Handling charges and commissions of the P&C insurance segment increased by 16.1% to RMB17.044 billion in 2012 from RMB14.679 billion in 2011. In 2012, with the increasing pressure of the slowdown of the macro-economic growth in China, implementation of marco-economic control policies over real estates and motor vehicles in some cities and continuous influx of new market players, the competition of the domestic P&C insurance market was intensified while there was an increase in handing charges and commissions in the P&C insurance segment.

Finance costs

Finance costs of the Group's P&C insurance segment of the Group increased by 23.8% to RMB1.633 billion in 2012 from RMB1.319 billion in 2011, mainly caused by the increase of interest expenses on subordinated debts and securities sold under the agreements to repurchase.

Net Profit

As a result of the foregoing, there was a substantial growth in the overall profit of the P&C insurance segment in 2012, as its net profit increased by 29.0% to RMB10.407 billion in 2012 from RMB8.065 billion in 2011.

LIFE AND HEALTH INSURANCE

(1) Life insurance

Under the tough market conditions in 2012, the life insurance segment of the Group adhered to the guiding ideology of "economies of scale" and competitive strategy of differentiation, established diversified channels, improved the organization structure, enhanced team-building, improved management and control as well as service capability continuously, resulting in a steady business growth, a significant increase in its operating benefit and further enhancing its the overall value. As the TWPs generated from new insurance policies of PICC Life amounted to RMB71.093 billion in 2012, it ranked second in this field for three consecutive years.

1. *Analysis by product*

The following table sets forth the original premiums income from various products of the Group's life insurance segment for the periods indicated:

Unit: RMB in millions, except for percentages

	For the year ended 31 December			
	2012		2011	
Life insurance products	**Amount**	**Percentage of total (%)**	Amount	Percentage of total (%)
Traditional insurance	**1,419**	**2.2**	587	0.8
Participating insurance	**60,332**	**94.2**	67,947	96.6
Universal insurance	**81**	**0.1**	76	0.1
Accidental injury and short-term health insurance	**2,198**	**3.4**	1,752	2.5
Total	**64,030**	**100.0**	70,361	100.0

TWPs of RMB75.769 billion of our life insurance business were from products with a term of one year or more, among which 87.1% were from single premium products.

2. *Analysis by channel*

The following table sets forth the breakdown of the original premiums income of life insurance segment by distribution channel for the periods indicated, which can be specifically divided into bancassurance, individual insurance and group insurance. The number of bancassurance outlets has continuously increased from 80,763 in 2011 to 109,296 in 2012.

Unit: RMB in millions, except for percentages

	For the year ended 31 December			
	2012		2011	
	Amount	**Percentage of total (%)**	Amount	Percentage of total (%)
Bancassurance	**46,103**	**72.0**	60,038	85.3
Individual insurance	**11,478**	**17.9**	9,109	12.9
Group insurance	**6,449**	**10.1**	1,214	1.7
Total	**64,030**	**100.0**	70,361	100.0

In 2012, the TWPs of bancassurance amounted to RMB50.306 billion, and we ranked second for four consecutive years in the field in terms of the TWPs generated from new insurance policies. The TWPs of individual insurance amounted to RMB18.597 billion, and average monthly first year life insurance TWPs per agent reached RMB6,731. The TWPs of group insurance amounted to RMB9.064 billion.

3. *Persistency ratio*

The following table sets forth the 13-month and 25-month persistency ratios for individual customers of the life insurance segment of the Group for the periods indicated:

	For the year ended 31 December	
Item	**2012**	2011
Individual life insurance customer persistency ratio (%)		
13-month persistency ratio [(1)] (%)	**91.9**	95.6
25-month persistency ratio [(2)] (%)	**91.3**	92.7

(1) The 13-month persistency ratio for a given year is the proportion of the total number of long-term individual life insurance policies issued in the preceding year that remain in force as of the 13th month following issuance.

(2) The 25-month persistency ratio for a given year is the proportion of the total number of long-term individual life insurance policies issued in the penultimate year that remain in force as of the 25th month following issuance.

4. *Financial Analysis*

The following table sets forth certain selected key financial information of the life insurance segment for the periods indicated:

Unit: RMB in millions, except for percentages

	For the year ended 31 December		
	2012	2011	Year-on-Year (%)
Net earned premiums	**63,720**	70,110	(9.1)
Investment income	**11,476**	8,844	29.8
Other income	**535**	714	(25.1)
Total income	**75,750**	79,703	(5.0)
Claims and policyholders' benefits	**66,590**	70,037	(4.9)
Handling charges and commissions	**3,087**	3,405	(9.3)
Finance costs	**1,880**	1,789	5.1
Other operating and administrative expenses	**3,547**	3,935	(9.9)
Insurance business and other expenses	**75,112**	79,250	(5.2)
Profit before tax	**680**	517	31.5
Income tax expense	**80**	34	135.3
Net Profit	**760**	551	37.9

Net earned premiums

Net earned premiums of the life insurance segment of the Group decreased by 9.1% to RMB63.720 billion in 2012 from RMB70.110 billion in 2011, which were principally caused by factors such as the high benchmark interest rate for one-year bank deposits and the diversification of customers' investment channels.

Investment income

The investment income of the life insurance segment of the Group increased by 29.8% to RMB11.476 billion in 2012 from RMB8.844 billion in 2011, which was mainly due to the increase in interest income from fixed-income investment assets such as bonds, term deposits and negotiated deposits, as well as increase in dividend income.

Other income

Other income of the life insurance segment decreased by 25.1% to RMB535 million in 2012 from RMB714 million in 2011, which was mainly due to the decrease in policy initiation fees.

Claims and policyholders' benefits

Claims and policyholders' benefits for the life insurance segment of the Group decreased by 4.9% to RMB66.590 billion in 2012 from RMB70.037 billion in 2011, which was mainly caused by the decrease in insurance premiums.

Handling charges and commissions

Handling charges and commissions of the Group's life insurance segment decreased by 9.3% to RMB3.087 billion in 2012 from RMB3.405 billion in 2011, which was mainly caused by the decrease in premium income.

Finance costs

Finance costs of the life insurance segment of the Group increased by 5.1% to RMB1.880 billion in 2012 from RMB1.789 billion in 2011, which was mainly caused by the increase in interest expenses on investment contracts.

Net Profit

As a result of the foregoing, the net profit of the life insurance segment of the Group increased by 37.9% to RMB760 million in 2012 from RMB551 million in 2011.

(2) Health Insurance

In 2012, through in-depth research and close monitoring of market trends, the health insurance segment of the Group promoted the "Zhanjiang Model" and "Taicang Project" to further strengthen its competitive advantages of the government-entrusted business, and its fundamental management, enhance the service standards, leading to a business development trend of stable growth.

1. *Analysis by product*

The following table sets forth the original premiums income of various products of the health insurance segment for the periods indicated:

Unit: RMB in millions, except for percentages

	For the year ended 31 December			
	2012		2011	
Health insurance products	**Amount**	**Percentage of total (%)**	Amount	Percentage of total (%)
Illness insurance	**154**	**2.0**	150	3.3
Medical insurance	**4,213**	**55.4**	3,171	69.0
Disability losses insurance	**71**	**0.9**	6	0.1
Nursing care insurance	**257**	**3.4**	352	7.7
Accidental injury insurance	**464**	**6.1**	485	10.5
Participating endowment insurance	**2,440**	**32.1**	433	9.4
Total	**7,600**	**100.0**	4,596	100.0

2. *Analysis by channel*

The following table sets forth the breakdown of the original premiums income of the health insurance segment by distribution channel for the periods indicated, which are specifically divided into bancassurance, individual insurance and group insurance.

Unit: RMB in millions, except for percentages

	Year ended 31 December			
	2012		2011	
	Amount	Percentage of total (%)	Amount	Percentage of total (%)
Bancassurance	2,461	32.4	450	9.8
Individual insurance	358	4.7	450	9.8
Group insurance	4,781	62.9	3,697	80.4
Total	7,600	100.0	4,596	100.0

3. *Persistency ratio*

The following table sets forth the 13-month and 25-month persistency ratios for individual customers of the health insurance segment of the Group for the periods indicated:

	For the year ended 31 December	
Item	2012	2011
Individual health insurance customer persistency ratio (%)		
13-month persistency ratio (1) (%)	89.7	89.1
25-month persistency ratio (2) (%)	87.2	70.7

(1) The 13-month persistency ratio for a given year is the proportion of the total number of long-term individual health insurance policies issued in the preceding year that remain in force as of the 13th month following issuance.

(2) The 25-month persistency ratio for a given year is the proportion of the total number of long-term individual health insurance policies issued in the penultimate year that remain in force as of the 25th month following issuance.

4. *Financial Analysis*

The following table sets forth certain selected key financial information of the health insurance segment for the periods indicated:

Unit: RMB in millions, except for percentages

	For the year ended 31 December		
	2012	2011	Year-on-Year (%)
Net earned premiums	**5,326**	2,682	98.6
Investment income	**418**	672	(37.8)
Other income	**147**	324	(54.6)
Total income	**6,347**	4,150	52.9
Claims and policyholders' benefits	**4,790**	2,406	99.1
Handling charges and commissions	**258**	188	37.2
Finance costs	**707**	585	20.9
Other operating and administrative expenses	**1,335**	1,448	(7.8)
Insurance business expenses and other expenses	**7,090**	4,632	53.1
Profit before tax	**(743)**	(482)	54.1
Income tax expense	**–**	–	–
Net profit	**(743)**	(482)	54.1

Net earned premiums

Net earned premiums from the health insurance segment increased by 98.6% to RMB5.326 billion in 2012 from RMB2.682 billion in 2011, primarily due to the positive outcome by the continued promotion of the "Zhanjiang Model" in the Group's health insurance segment, benefiting from the further reform of the medical and health system, the favorable policies such as the "Guidance on Implementation of Critical-illness Insurance for Urban and Rural Residents" (《關於開展城鄉居民大病保險工作的指導意見》), and the exploration and promotion of the "Taicang Project", and as a result, the rapid growth in the premiums from government-entrusted business generated premiums income of RMB3.920 billion, representing an increase of 44.6% compared to the same period of the previous year. Furthermore, adjustment of product strategy and the sales of participating insurance products through bancassurance distribution channel also generated premiums income of RMB2.44 billion in 2012.

Investment income

Investment income from the health insurance segment decreased by 37.8% to RMB418 million in 2012 from RMB672 million in 2011, primarily due to the higher proportion of the equity assets in the health insurance segment, resulting in a corresponding increase in impairment losses on financial assets recorded at fair value.

Other income

Other income from the health insurance segment decreased by 54.6% to RMB147 million in 2012 from RMB324 million in 2011, primarily due to a decrease of the business scale of universal insurance products from the health insurance segment, as well as a decrease in the policy initiation fees and the management fees charged to policyholders.

Claims and policyholders' benefits

Claims and policyholders' benefits from the health insurance segment increased by 99.1% to RMB4.790 billion in 2012 from RMB2.406 billion in 2011, which were in line with the changes in net earned premiums from the health insurance segment.

Handling charges and commissions

Handling charges and commissions from the health insurance segment increased by 37.2% to RMB258 million in 2012 from RMB188 million in 2011, primarily due to the sales of participating insurance products through the bancassurance distribution channels of the health insurance segment, which generated an increase of RMB2.007 billion premiums income.

Finance costs

Finance costs from the health insurance segment increased by 20.9% to RMB707 million in 2012 from RMB585 million in 2011, primarily due to the interest expenses of the investment contracts of existing and new policyholders and the interest expenses of financial assets sold under the agreements to repurchase.

Net profit

As a result of the foregoing, our net profit from the health insurance segment decreased by 54.1% to RMB-743 million in 2012 from RMB-482 million in 2011.

Analysis of income from the insurance business by region

The following table sets forth the original premiums income from the insurance business of the Group in the PRC by region for the periods indicated:

Unit: RMB in millions

	For the year ended 31 December	
	2012	2011
Guangdong Province	**22,603**	21,236
Jiangsu Province	**21,964**	20,964
Zhejiang Province	**19,139**	17,731
Shandong Province	**18,724**	17,643
Hebei Province	**16,636**	16,975
Sichuan Province	**14,181**	13,712
Beijing	**13,301**	10,514
Henan Province	**11,779**	13,153
Liaoning Province	**10,154**	10,128
Hubei Province	**9,411**	8,302
Other regions	**106,757**	98,152
Total	**264,648**	248,510

Asset management business

The investment income of the asset management segment of the Group does not include the investment income generated by the investment assets managed by our asset management segment on behalf of the Group's insurance segments. The investment income generated by the investment assets managed by our asset management segment on behalf of our other segments are included in the investment income of the relevant segment.

PICC AMC is one of the main issuers of the infrastructure debt investment plans in the insurance industry, which continuously provides infrastructure debt investment plans with stable revenue to the insurance funds of the Group and other insurance institutions. PICC AMC is engaged in third-party asset management business of the insurance industry and the enterprise annuity investment management business by implementing segregated account management and issuing investment products, which leads to a continuous growth in asset management scale.

The following table sets forth the income statement data of the asset management segment of the Group for the periods indicated:

Unit: RMB in millions, except for percentages

	For the year ended 31 December		
	2012	2011	Year-on-Year (%)
Investment income	574	542	5.9
Other income	925	1,215	(23.9)
Total income	1,499	1,757	(14.7)
Finance costs	91	269	(66.2)
Other operating and administrative expenses	710	1,007	(29.5)
Total expenses	801	1,278	(37.3)
Profit before tax	734	829	(11.5)
Income tax expense	(436)	(149)	192.6
Net profit	298	680	(56.2)

Investment income

Investment income from our asset management segment increased by 5.9% to RMB574 million in 2012 from RMB542 million in 2011, primarily due to the revaluation surplus of the investment properties.

Other income

Other income from our asset management segment decreased by 23.9% to RMB925 million in 2012 from RMB1.215 billion in 2011, primarily due to the decrease in the number of associated companies within the scope of consolidation.

Finance costs

Finance costs for our asset management segment decreased by 66.2% to RMB91 million in 2012 from RMB269 million in 2011, primarily due to a decrease in the number of associated companies within the scope of consolidation and the corresponding reduction in finance costs.

Net profit

As a result of the foregoing, net profit of our asset management segment was RMB298 million in 2012.

INVESTMENT PORTFOLIO AND INVESTMENT INCOME

(1) Investment portfolio

The following table sets forth certain information regarding the composition of our investment portfolio as of the dates indicated:

Unit: RMB in millions, except for percentages

	As of 31 December			
	2012		2011	
Investment assets	**Carrying amount**	**Percentage of total (%)**	Carrying amount	Percentage of total (%)
Cash and cash equivalents	73,873	12.4	55,333	11.5
Fixed-income investments	351,363	59.0	321,132	66.8
Term deposits	120,115	20.2	94,716	19.7
Fixed-income securities	217,369	36.5	213,996	44.5
Government bonds	20,860	3.5	20,631	4.3
Finance bonds	126,589	21.2	123,316	25.6
Corporate bonds	69,920	11.7	70,049	14.6
Other fixed-income investments (1)	13,879	2.3	12,420	2.6
Equity and fund investments at fair value	93,479	15.7	59,997	12.5
Security investment funds	44,859	7.5	26,083	5.4
Equity securities	48,620	8.2	33,914	7.0
Other investments (2)	77,244	13.0	44,619	9.3
Total investment assets	595,959	100.0	481,081	100.0

(1) Primarily consist of restricted statutory deposits and loan against insurance policies.

(2) Primarily consist of investment properties, derivative financial assets, subordinated debts and debt investment plans, investment in affiliates and associates, and equity investments recorded at cost as well as trust plans.

(2) Investment income

The following table sets forth certain information relating to our investment income for the periods indicated:

Unit: RMB in millions, except for percentages

Items	For the year ended 31 December 2012	2011
Cash and cash equivalents	**251**	489
Fixed-income securities	**16,224**	12,767
Interest income	**16,368**	12,768
Net realized gains/(losses)	**(122)**	(25)
Net unrealized gains/(losses)	**(26)**	29
Impairment	**4**	(5)
Equity and fund investments at fair value	**(60)**	(1,486)
Dividend income	**2,894**	1,942
Net realized gains/(losses)	**542**	(325)
Net unrealized gains/(losses)	**649**	(664)
Impairment	**(4,145)**	(2,439)
Other investment income/(loss)	**4,198**	2,857
Total investment income	**20,614**	14,627
Total investment yield (1) (%)	**4.2**	3.6
Net investment yield (2) (%)	**4.6**	4.3

(1) Total investment yield refers to the ratio of total investment income (excluding interest expenses on securities sold under the agreements to repurchase) to the average of total investment assets (excluding the relevant liabilities of the securities sold under agreements to repurchase) as of beginning and end of the period.

(2) Net investment yield refers to the ratio of net investment income (total investment income – net realized financial assets income – net unrealized financial assets income – impairment loss of financial assets – interest expenses on securities sold under the agreements to repurchase) to the average of total investment assets (excluding the relevant liabilities of the securities sold under agreements to repurchase) as of beginning and end of the period.

SPECIFIC ANALYSIS

(1) Liquidity analysis

1. *Statement of cash flows*

Unit: RMB in millions, except for percentages

	For the year ended 31 December 2012	2011	Year-on-Year (%)
Net cash flow from operating activities	**52,522**	74,757	(29.7%)
Net cash flow from investment activities	**(70,187)**	(99,490)	(29.5%)
Net cash flow from financing activities	**36,059**	39,799	(9.4%)

2. *Liquidity analysis*

The Group implemented unified liquidity management. The cash inflow of the Company, as a holding company, was mainly derived from the investment income arising from the investment activities, the cash flow generated by financing activities and the dividends from its subsidiaries.

The liquidity of the Group was mainly from premiums, net investment income, and cash from sales or maturity of investment assets and its own financing activities. The demand for liquidity primarily arose from surrenders, withdrawals or other forms of early termination of insurance policies, insurance claims or benefits, dividends to shareholders and cash required for payment of various ordinary expenses.

Since the Group generally collects premiums before the payment of insurance claims or benefits, the cash inflow from operating activities of the Group generally records a net inflow. In addition, the Group maintains a certain proportion of assets with high liquidity in our investment assets through our strategic asset allocation management to satisfy the demand for liquidity. The Group also obtains additional liquidity from the disposal of securities sold under repurchase agreement and other financing activities.

The Company believes that we have sufficient liquidity to meet the liquidity requirements of the Company in the foreseeable future.

(2) Solvency

The Company calculated and disclosed the actual capital, the minimum capital and the solvency margin ratio in accordance with the relevant requirements of CIRC. According to the requirements of CIRC, the solvency margin ratio of domestic insurance companies in the PRC shall reach the required level.

Unit: RMB in millions, except for percentages

	As of 31 December		
	2012	2011	Year-on-Year (%)
PICC P&C			
Actual capital	**43,260**	37,768	14.5
Minimum capital	**24,771**	20,523	20.7
Solvency margin ratio (%)	**175**	184	Decrease of 9 pt
PICC Life			
Actual capital	**13,955**	11,497	21.4
Minimum capital	**10,773**	8,678	24.1
Solvency margin ratio (%)	**130**	132	Decrease of 2 pt
PICC Health			
Actual capital	**2,050**	1,075	90.7
Minimum capital	**1,263**	1,003	25.9
Solvency margin ratio (%)	**162**	107	Increase of 55 pt

As of 31 December 2012, the solvency margin ratio of PICC P&C was 175%, representing a decrease of 9 percentage points as compared to the corresponding period in 2011 and was above the level of the Adequate Solvency II category as classified by CIRC. The solvency margin ratio of PICC Life was 130%, remaining basically at the same level as the corresponding period in 2011 and remained in the Adequate Solvency I category as classified by CIRC. The solvency margin ration of PICC Health was 162%, representing an increase of 55 percentage points as compared to the corresponding period in 2011 and was above the level of the Adequate Solvency II category as classified by CIRC. The increase in solvency margin ratio of PICC Health was mainly attributable to the capital contributions from its shareholders.

PROSPECTS

(1) Market Environment

In 2012, the insurance industry in China adhered to the principle of scientific development focusing on the acceleration in the transformation of its development, and the insurance sector demonstrated steady development. According to the statistics released by CIRC, the original premiums income in China for 2012 amounted to RMB1.55 trillion, representing an increase of 8.0% as compared to the previous year, in which, the original premiums income of the P&C insurance companies and life and health insurance companies recorded an increase of 15.7% and 4.2%, respectively, as compared to the previous year, and total insurance assets exceeded RMB7.35 trillion. China's insurance market is still one of the fastest growing insurance markets in the world.

In respect of the current market, the internal and external environment of the insurance industry in China are becoming more complex with increasing uncertainties that affect its development. The development of the insurance industry, especially the life insurance sector, has a more critical situation. However, the rapid growth in the income of urban and rural residents has accelerated and promoted the transformation and upgrading of consumption patterns, while adjustments on the marketing channels and product structure continues, providing development opportunities for the continuous and steady growth of the insurance industry.

In respect of the direction of regulatory policies, the regulatory environment of the insurance industry has been improved and the insurance investment channel has further expanded. Since the second half of 2012, CIRC has rolled out a series of insurance funds investment management policies and has further broadened the utilization of insurance funds, allowing insurance companies to have more flexibility in matching their assets and liabilities, which helps improve the investment returns of deployed insurance funds within the insurance industry.

In general, as China will still be at a stage of economic development with key strategic opportunities in the foreseeable future, the fundamentals of sustaining China's economic and social development have remained stable. Given that there is still a relative large gap in insurance density and insurance depth between China and the world's average standard, and the living standards and awareness of risk protection are rising, which provide a favorable external environment for the development of the insurance industry in China, China's insurance industry is at its golden age of development and shall continue to maintain stable growth.

(2) Business plans

The year 2013 is the first full year of operation of the Company after listing. The Company will continue to further strengthen its foundation, optimize the structure, innovate its system and enhance product quality during its business development and continuously drive the steady growth of its overall value. The Company will not only focus on seizing opportunities and striving to achieve a steady expansion of its businesses, but will also continue to enhance its operation quality and the creation of value. In terms of industry benchmarking development, along with maintaining stable business growth, the Company will ride on the trend of restructuring of the industry, proactively adjust and optimize its structure and continue to strengthen its ability to achieve sustainable growth.

Amid various challenges and changes, the Company will, according to the actual conditions of its subsidiaries, continue to strive for cost saving, further control various expenses and fully execute the budget dynamic management. In 2013, PICC P&C will pursue innovative products and services in overall planning, enhance its risk selection and risk pricing power, continue to optimize the business structure and consolidate its market position. PICC Life will maintain its competitive advantage in the bancassurance channel, put great efforts to develop non-bancassurance channels and promote coordinated development in protection insurance business and financial management insurance business, single premium product business and regular premium business according to consumer demand to increase the embedded value of the business. PICC Health will enhance its quality business expansion capability to boost the profitability of the government-entrusted business, develop profitable products, improve the control of medical care risks and formulate a stable profit model. With its diversified investment platform, the assets management business can develop projects in the equity, real estates and elderly-care business segments and vigorously expand third party business and innovative business in order to increase its investment income. Each of the business segments of the Group will continue to carry on synergistic operations and enhance its overall value.

CAPITAL EXPENDITURE

The capital expenditure of the Group primarily consisted of property construction, acquisition of motor vehicles for business needs and development of information systems. Capital expenditure was RMB4,491 million in 2012.

PLEDGE OF ASSETS

Beijing No. 88 West Chang'an Avenue Development Company ("No. 88 Development Co.")（八十八號發展公司）, a subsidiary of the Company, obtained a loan of RMB98 million and a loan of RMB264 million, for a total of RMB362 million, in 2012 and 2011, respectively, from China Construction Bank. No. 88 Development Co.（八十八號發展公司） has pledged its property located at No. 88 of West Chang'an Avenue in Beijing （北京西長安街88號）(net assets as at 31 December 2012: RMB3,571 million; net assets as at 31 December 2011: RMB3,598 million) for security.

CONTINGENCIES

There were a number of outstanding litigation matters against the Group as of 31 December 2012. The Company's management believes such litigation matters will not cause significant losses to the Group.

Due to the nature of the insurance business, the Company and its subsidiaries are involved in legal proceedings in the ordinary course of business, such as litigation and arbitration. Such legal proceedings primarily involve claims on its subsidiaries' insurance policies, but may also involve litigation and arbitration not related to our policies. While the outcome of such contingencies, lawsuits or other proceedings cannot be determined at present, the management believes that any resulting liabilities will not have a material adverse effect on the financial position or operating results of the Group.

FOREIGN EXCHANGE RATE RISK

Certain assets and liabilities of the Group are denominated in foreign currencies, such as Hong Kong dollar, U.S. dollar and other currencies. We may be exposed to foreign exchange rate risks as a result of changes in the exchange rates between RMB and these currencies. However, since substantially all of the Group's assets and liabilities are denominated in RMB, the Company believes that the Group is not subject to material foreign exchange rate risks.

INTEREST RATE RISK

Our exposure to interest rate risk predominantly arises from investments in long-term fixed income debt securities which are exposed to fluctuations in interest rates. We regularly monitor and assess our interest rate risk by conducting sensitivity analysis and stress tests based on the analysis of discrepancies between assets and liabilities. We seek to manage our interest rate risk by adjusting our portfolio composition and by managing, to the extent possible, the average duration and maturity of our portfolio. In addition, a rise of interest rate may lead to increase in surrenders and in coverage deductions. We manage such risks by strengthening the actuarial supervision of settlement interest rate and monitoring of surrender rate, and taking effective measures to reduce surrender rate. We use derivative financial instruments, such as interest rate swaps, to hedge its interest rate risk and receive interest at a fixed rate from counterparties and paying interest at a variable rate.

Directors, Supervisors, Senior Management and Employees

EXECUTIVE DIRECTORS

Mr. WU Yan, aged 51, is an executive Director and the chairman of the Board of the company, and a Senior Economist. Mr. Wu is responsible for overseeing the company. Mr. Wu is a member of the 17th and the 18th National Congress of the Communist Party of China and a member of the 11th and 12th National Committee of the Chinese People's Political Consultative Conference. From July 1985 to August 1998, he served successively as the deputy secretary of the league committee of the Communist Youth League of Xinjiang Autonomous Region, the party secretary of the Communist Party Committee of the city of Bole, Xinjiang, a member of the Standing Committee of Bortala Mongol Autonomous Prefecture Communist Party Committee, the party secretary (bureau-level) of the Communist Youth League of Xinjiang Autonomous Region and the vice minister (bureau-level) of the Organization Department of the Central Committee of the Communist Youth League. From August 1998 to August 2003, he was the party secretary of the Finance League of the Central Committee of the Communist Youth League and the vice minister of the United Front and Mass Work Department of the Central Finance League, and the president of the National Finance Youth Union. He served as the deputy general manager of China Life Insurance (Group) Company from August 2003 to January 2007. Meanwhile, he also served as president of China Life Insurance Asset Management Company Limited from August 2003 to January 2006 and president of China Life Insurance Company Limited (listed on the Shanghai Stock Exchange, Stock Code: 601628; the Stock Exchange of Hong Kong Limited, Stock Code: 2628; and the New York Stock Exchange, Stock Code: LFC) from January 2006 to January 2007. Mr. Wu was appointed as the general manager (president) of the company in January 2007, and executive Director, the chairman of the Board of the company and president (ceased to be president since March 2012) since September 2009 when the company completed the share transformation. Mr. Wu is also the chairman of the Board of PICC P&C since March 2007, PICC Life since April 2007 and PICC AMC since January 2008. Mr. Wu has been the director of The Geneva Association since June 2010. Mr. Wu was awarded the Special Government Allowance by the State Council of the PRC ("State Council") in March 2011. Mr. Wu graduated from Xinjiang College of Finance and Economics (now known as Xinjiang University of Finance and Economics) in July 1981, and graduated from the graduate school of the Chinese Academy of Social Sciences in July 2002 with a Doctoral Degree in Economics.

Mr. WANG Yincheng, aged 52, is an executive Director and vice president of the company, and a Senior Accountant. Mr. Wang is responsible for PICC P&C. Mr. Wang joined the company in August 1982 and until July 2003, served successively as deputy general manager (in charge of daily operations) of the Planning and Finance Department, general manager of the Shenzhen branch and assistant to the general manager of the company. Mr. Wang was appointed as an executive director, vice president and chief financial officer of PICC P&C in July 2003, and its executive director, vice chairman of the Board and president since August 2008. Mr. Wang has been the vice president of the company since March 2009, and executive Director and vice president since September 2009. He also served as a director of PICC AMC from November 2006 to April 2010. Mr. Wang has been the deputy president of the Insurance Association of China since September 2008 and deputy president of the China Association of Actuaries since April 2011. Mr. Wang graduated from Shanxi College of Finance and Economics (山西財經學院, now known as Shanxi University of Finance and Economics) in July 1982 with a Bachelor's Degree in Finance and Economics and graduated from Zhongnan University of Economics and Law in December 2003 with a Doctoral Degree in Politics and Economics.

Mr. LI Liangwen, aged 61, is an executive Director of the company and a Senior Economist. Mr. Li is responsible for PICC Life. Mr. Li joined the company in July 1975. Mr. Li worked at the Bank of China's Qinhuangdao branch and the company's Qinhuangdao branch from July 1975 to March 1983, and was the deputy general manager and general manager of the company's Qinhuangdao branch, deputy director of the company's London liaison office, deputy general manager of China Insurance Company (UK) Limited and deputy general manager of the company's Hebei branch since March 1983. Mr. Li was appointed as deputy general manager of Zhongbao Life Insurance Company Limited's Hebei branch in July 1996, general manager of the Product Development Department of China Life Insurance Company in July 2000, vice president of China Life Insurance Company Limited in August 2003, and director and president of China Life Property and Casualty Insurance Company Limited in December 2006. Mr. Li has been the vice chairman of the Board and president of PICC Life since April 2007. Mr. Li was appointed as the deputy general manager (vice president) of the company from August 2007 to March 2012, and has been an executive Director since September 2009. Mr. Li did not hold any directorship in any other listed companies in the last three years. Mr. Li has been a standing director of the Insurance Association of China and The Insurance Institute of China since September 2008, and member of the Expert Consultation Committee of the China Association of Actuaries since March 2011. Mr. Li was awarded the Special Government Allowance by the State Council in April 2005. Mr. Li graduated from Hebei Normal University in July 1975 with a university level qualification majoring in English.

NON-EXECUTIVE DIRECTORS

Mr. CAO Guangsheng, aged 59, is a non-executive Director of the company. Mr. Cao joined the MOF in October 1978, and until September 2009 served successively as deputy director of the Corporate Finance Division of the Agricultural Finance Department, director of the Reform and Finance Division, director of Disaster Relief Division and director of the Water Resources Division of the Agriculture Department, and served as deputy inspector of the Agriculture Department of the MOF from November 2001 to September 2009. Mr. Cao has been a non-executive Director of the company since September 2009. Mr. Cao did not hold any directorship in any other listed companies in the last three years. Mr. Cao graduated from Liaoning College of Finance and Economics (now known as Dongbei University of Finance and Economics) in August 1978 with a major in Industrial Statistics from the Department of Census and Statistics.

Mr. LIU Yeqiao, aged 51, is a non-executive Director of the company and a Senior Accountant. Mr. Liu joined the MOF in July 1991, and until October 2007 served successively as deputy director of the Policy Division of the Industrial Transport Department, and deputy director and researcher of the General Division of the Finance Department; and deputy director of the Department of Finance of Yunnan Province from October 2007 to October 2009. Mr. Liu has been a non-executive Director of the company since September 2009. Mr. Liu did not hold any directorship in any other listed companies in the last three years. Mr. Liu graduated from Zhongnan University of Finance and Economics (now known as Zhongnan University of Economics and Law) in July 1991 with a Master's Degree in Accounting; obtained a Master's Degree in Accounting from The George Washington University in May 2000; and obtained a Doctoral Degree in Economics from the Research Institute for Fiscal Science, MOF in August 2003.

Mr. QI Shaojun, aged 58, is a non-executive Director of the company. Mr. Qi was the deputy general manager of the Ping An Insurance Company of China, Limited's Changchun branch, from October 1997 to August 2000. Mr. Qi worked at the CIRC from August 2000 to October 2009, serving successively as deputy director and director of the Harbin Office of the Commissioner and director of the Heilongjiang Bureau in February 2004. Mr. Qi has been a non-executive Director of the company since November 2009. Mr. Qi did not hold any directorship in any other listed companies in the last three years. Mr. Qi graduated from The People's Bank of China, Jilin Province branch, Staff University (中國人民銀行吉林省分行職工大學, now known as Changchun Finance College) in July 1989 with a major in Banking Management.

Ms. ZHANG Hanlin, aged 59, is a non-executive Director of the company and a Deputy Researcher. Ms. Zhang was the controller of the company organization committee of the China Grain Group Company (中國華糧集團公司) from August 2000 to May 2002, inspector of the State Administration of Grain and director and legal representative of The Grain of the Investigation Training Centre of China from May 2002 to September 2007. Ms. Zhang worked at the China Investment Corporation from September 2007 to March 2012, and served successively as controller of the operational department and office chief inspector (operational department). Since April 2012, Ms. Zhang has been a non-executive Director of the company. Ms. Zhang did not hold any directorship in any listed companies in the last three years. Ms. Zhang graduated from Liaoning University in July 1984 with a major in Economic Management and a Doctoral Degree in Economics from the Graduate School of the Chinese Academy of Social Sciences in July 1991.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. XIANG Huaicheng, aged 74, is an independent non-executive Director of the company and a Senior Economist. Mr. Xiang is a distinguished professor of the Shandong University and the Chinese Academy of Governance, and an adjunct professor and doctoral supervisor of the Chinese Academy of Social Sciences, Tsinghua University, Renmin University of China, Central University of Finance and Economics, and the Research Institute for Fiscal Science. Mr. Xiang was the minister of the MOF from March 1998 to March 2003, and chairman of the National Council for Social Security Fund of the PRC ("NSSF") from May 2003 to January 2008. Mr. Xiang has been an independent non-executive Director of the company since September 2009. Mr. Xiang did not hold any directorship in any other listed companies in the last three years. Mr. Xiang graduated from Shandong University in July 1960 with a Bachelor's Degree in Chinese, and received an Honorary Doctoral Degree in Social Science from the City University of Hong Kong in November 2005.

Mr. LAU Hon Chuen, GBS, JP, aged 65, has been an independent non-executive Director of the company since October 2012. He has been a solicitor of the High Court of Hong Kong since December 1971, and is a China-Appointed Attesting Officer and a Notary Public. Mr. Lau has been the senior partner of Messrs. Chu & Lau, Solicitors & Notaries since April 1978, and is currently a standing committee member of the National Committee of the Chinese People's Political Consultative Conference. Mr. Lau is currently an independent non-executive director of the following companies listed on the Stock Exchange of Hong Kong Limited: Franshion Properties (China) Limited, Glorious Sun Enterprises Limited, Yuexiu Transport Infrastructure Limited, Yuexiu Property Company Limited, The Hong Kong Parkview Group Limited, Wing Hang Bank, Limited and Brightoil Petroleum (Holdings) Limited. He is also currently an independent non-executive director of Bank of China Group Insurance Company Limited, BOC Group Life Assurance Company Limited, Nanyang Commercial Bank, Limited, Wing Hang Bank (China), Limited and a director of Chu & Lau Nominees Limited (a company secretarial services company), Sun Hon Investment and Finance Limited (an investment business company), Wydoff Limited (a nominee services company) and Wytex Limited (a nominee services company). Mr. Lau served as chairman of the District Board of the Central and Western District of Hong Kong from 1988 to 1994, the president of the Law Society of Hong Kong from 1992 to 1993, a member of the Bilingual Laws Advisory Committee from 1988 to 1997 and a member of the Legislative Council of Hong Kong from 1995 to 2004 (between 1997 and 1998 he was a member of the Provisional Legislative Council). Mr. Lau graduated from the University of London in July 1969 with a Bachelor of Laws Degree.

Mr. DU Jian, aged 71, is an independent non-executive Director of the company and a Senior Economist. Mr. Du joined the MOF in August 1963, and until June 2000 served consecutively as deputy director of the General Division of the Cultural, Educational, Administrative and Financial Department, deputy director of the Cultural and Health Division, deputy director and director of the Cultural and Corporate Division, director of the Social Security Department and director of the External Department. Mr. Du was the chairman of the Board of Supervisors (deputy organization level) of the Communist Party's Central Finance Working Committee on Important State-owned Financial Institutions of the State Council from June 2000 to June 2003 and chairman of the Board of Supervisors (deputy organization level) of the CBRC's Important State-owned Financial Institutions of the State Council from June 2003 to August 2005. Mr. Du was the director of the CBRC's Special Treatment Case Supervision Organization from February 2006 to December 2008. Mr. Du has been the independent non-executive director of Ping An Bank since July 2008 and the independent non-executive director of China Development Bank since December 2008. Mr. Du has been an independent non-executive Director of the company since October 2012. Mr. Du did not hold any directorship in any other listed companies in the last three years. Mr. Du graduated from Central Institute of Finance and Economics (now known as Central University of Finance and Economics) in July 1963 with a Bachelor's Degree in Foreign Exchange.

Mr. CAI Weiguo, aged 63, is an independent non-executive Director of the company. Mr. Cai joined People's Bank of China ("PBOC") in September 1982 and until January 2001, served as deputy president of its Tianjin city branch and deputy director of Tianjin bureau of the State Administration of Foreign Exchange, and deputy president of PBOC's Tianjin branch in December 1998. Mr. Cai served successively in the CIRC as deputy director and director of its Tianjin Office and director of the Tianjin Bureau from January 2001 to March 2009. Mr. Cai has been an independent non-executive Director of the company since November 2009. Mr. Cai did not hold any directorship in any other listed companies in the last three years. Mr. Cai graduated from Tianjin College of Finance and Economics (天津財經學院, now known as Tianjin University of Finance and Economics) in July 1982 with a Bachelor's Degree majoring in Finance.

Mr. XU Dingbo, aged 49, is an independent non-executive Director of the company. From 1986 to 2003, Mr. Xu was a teaching assistant at the University of Pittsburgh and the University of Minnesota, an assistant professor at the Hong Kong University of Science and Technology, and an adjunct professor at Peking University from April 1999 to April 2009. He joined the China Europe International Business School in January 2004, serving successively since as professor, associate dean of Academic Affairs and member of the Managing Committee, and has served as member of its financial budget committee since October 2009. Mr. Xu has been an independent non-executive Director of the company since September 2009, and was an independent non-executive director and chairman of the audit committee of Sanjiang Shopping Club Co., Ltd. (listed on the Shanghai Stock Exchange, Stock Code: 601116) from December 2009 to November 2011. Mr. Xu has served as an independent non-executive director and chairman of the audit committee of Dongyi Risheng Home Decoration Group Limited Company (東易日盛家居裝飾集團股份有限公司) since December 2010. Mr. Xu has also served as an independent director of Shanghai Shyndec Pharmaceutical Co., Ltd (上海現代製藥股份有限公司) (listed on the Shanghai Stock Exchange, Stock Code: 600420) and Sany Heavy Industry Co., Ltd. (三一重工股份有限公司) (listed on the Shanghai Stock Exchange, Stock Code: 600031) since December 2012 and January 2013, respectively. Mr. Xu graduated from Wuhan University in July 1983 with a Bachelor's Degree in Mathematics, and obtained a Master's Degree in Economics in October 1986. Mr. Xu graduated from the University of Minnesota in August 1996 with a Doctoral Degree in Accounting. As a result of Mr. Xu's extensive academic experience and expertise in the field of accounting, as well as his experience in company (including public company) audit committees and budget committee of institutions, the Company considers that Mr. Xu possesses appropriate accounting and financial management expertise for the purposes of Rule 3.10 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules").

SUPERVISORS

Mr. LIN Fan, aged 53, is a Supervisor and the chairman of the Board of Supervisors of the company, and a Senior Economist. Mr. Lin joined the company in September 1980 and until July 1999, served successively as deputy general manager of the Guangzhou branch and general manager of the Shenzhen branch. Mr. Lin served as deputy general manager of China Insurance Company, Limited from July 1999 to August 2002. From August 2002 to May 2009, Mr. Lin served successively as managing director, vice chairman of the Board, general manager and chairman of the Board of China Insurance (Holdings) Company Limited. Mr. Lin served as the chairman of the Board of China Taiping Insurance Group Co. and China Taiping Insurance Group (HK) Company Limited from May 2009 to March 2012. Meanwhile, Mr. Lin served consecutively as chairman of the Board of The Ming An Insurance Co. (H.K.) Ltd., chairman of the Board of The Ming An (Holdings) Company Limited and chairman of the Board of China Taiping Insurance Holdings Company Limited (listed on the Stock Exchange of Hong Kong Limited, Stock Code: 0966). Mr. Lin graduated from the University of South Australia in August 2006 with a Master's Degree of Business Administration.

Mr. XU Yongxian, aged 49, is a Supervisor of the company and a Senior Economist. Mr. Xu joined the MOF in August 1990 and until August 2009, served successively as deputy director of the General Division of the Taxation Department, deputy director of the General Division of the Taxation Regulation Department, director of the General Division and director of Local Tax Division I of the Taxation Department, and deputy department level cadre of the Taxation Department of the MOF from September 2009 to December 2009. Mr. Xu has been a Supervisor of the company since September 2009. Mr. Xu did not hold any directorship in any listed companies in the last three years. Mr. Xu graduated from the Central Institute of Finance and Economics (now known as Central University of Finance and Economics) in July 1987 with a Bachelor's Degree in Taxation and a Master's Degree in Finance in July 1990.

Ms. YAO Bo, aged 53, is a Supervisor representative of employees of the company and a Senior Economist and a Senior Accountant. Ms. Yao joined the MOF in October 1987 and until March 2004 served successively as deputy director of Domestic Debts Division of the National Debts Department, deputy director of Finance Division III of the National Debts and Finance Department, deputy director and researcher of Finance Division II of the Finance Department. Ms. Yao served successively as part-time supervisor of the Board of Supervisors of Industrial and Commercial Bank, China Huarong Asset Management Corporation, China Construction Bank and China Cinda Asset Management Corporation from June 2000 to March 2004. Ms. Yao joined the company in March 2004 and until September 2007, served as deputy general manager of the Finance and Accounting Department and director of the Accounting Division, and since September 2007 served successively as general manager of the Worker's Union Department of the company and the deputy director of the Worker's Union Committee, and has been the Supervisor representative of the employees of the company since September 2009. Ms. Yao did not hold any directorship in any listed companies in the last three years. Ms. Yao graduated from the People's Liberation Army Medical School of Beijing (中國人民解放軍北京軍區醫院學校, now known as People's Liberation Army Bethune Medical Officer School (中國人民解放軍白求恩醫務士官學校)) in July 1982 with a university level qualification majoring in Examination and Inspection, and graduated from the Party School of the Central Committee of CPC in December 1997 with Bachelor's Degree in Foreign-related Economics, and graduated from the Jiangxi University of Finance and Economics in July 1999 with a Master's Degree in Finance and Policy.

SENIOR MANAGEMENT

Mr. DING Yunzhou, aged 59, is a vice president of the company, and a Senior Economist. Mr. Ding is in charge of the Business Development Department, the Information Technology Department, the International Department/Training Department and the South Information Center and is responsible for liaising with PICC Hong Kong. Mr. Ding joined the company in October 1977 and served successively as deputy general manager of the International Department, chairman of the Board and general manager of China Insurance Company (UK) Limited, chief representative (deputy department level) of the London liaison office, deputy director of the Insurance Research Institute and general manager of the Operations Department. Mr. Ding was appointed as an assistant to the general manager of the company in September 1997, deputy general manager (vice president) in March 2002, and vice president since September 2009. He served as an executive director of the company from September 2009 to November 2012. He also served as a director of PICC P&C from July 2003 to October 2006 and as chairman of its Board of Supervisors from October 2006 to January 2011, chairman of the Board of Supervisors of PICC Health from March 2005 to March 2009, a director of PICC AMC since November 2006, and an executive director and chairman of the Board of PICC Hong Kong since August 2007. Mr. Ding did not hold any directorship in any other listed companies in the last three years. Mr. Ding has been the standing director of The Insurance Institute of China since November 1999 and deputy president since November 2011. Mr. Ding was awarded the Special Government Allowance by the State Council in December 1998. Mr. Ding graduated from Dalian University of Foreign Languages in October 1977 with a university level qualification majoring in English.

Mr. ZHOU Shurui, aged 59, is a vice president of the company and a Senior Administrative Engineer. Mr. Zhou is in charge of the Culture Brand Department, the Worker's Union Department, the South Center Phase Two Infrastructure Office and the North Center Project Group and is responsible for liaising with PICC Health. Mr. Zhou joined the company in March 1992 and served successively as assistant to the general manager and deputy general manager of the Personnel Department, general manager of the Human Resources Department, deputy general manager (vice president) of the company from July 2003 to September 2009, Supervisor and chairman of the Board of Supervisors from September 2009 to March 2012, and vice president since March 2012. Mr. Zhou has been a non-executive director of PICC P&C since July 2003, director of PICC Health from March 2005 to August 2007 and chairman of the Board since March 2009, and chairman of the Board of Supervisors of PICC AMC from November 2006 to April 2011. Mr. Zhou has served as a standing director of The Insurance Institute of China since November 2011. Mr. Zhou graduated from Hebei Normal University in November 1980 with a major in Physics and a Bachelor's Degree in Political Education in June 1991, and completed a graduate course in Currency and Banking at the Central University of Finance and Economics in July 2001.

Ms. ZHUANG Chaoying, aged 54, is a vice president of the company and a Deputy Editor and Senior Enterprise Risk Manager. Ms. Zhuang is in charge of the Supervision and Audit Department/Inspection Office, the Risk Management Department/Legal and Compliance Department and the Retired Employee Management Department and is responsible for liaising with PICC Life. Ms. Zhuang worked at the Organization Department of the CPC Central Committee from July 1985 to December 2006, serving successively as deputy division director of the Party's Foreign Affairs Cadres Bureau, deputy division level researcher, director of the Editorial Office II and deputy chief editor (deputy bureau level) of the Party Building Books Publishing House, deputy inspector of the Cadres Bureau IV and deputy director of the Cadres Bureau IV in August 2003. Ms. Zhuang served as deputy general manager (vice president) of the company since December 2006. She also served as chairwoman of the Board of Supervisors of PICC Life since August 2007. Ms. Zhuang did not hold any directorship in any listed companies in the last three years. Ms. Zhuang has served as a director of The Insurance Institute of China since November 2011. Ms. Zhuang graduated from Shandong University in January 1982 with a Bachelor's Degree in Philosophy and obtained a Master of Business Administration Degree from China Europe International Business School in September 2010.

Mr. WANG Yincheng, Please refer to the section titled "Executive Directors" for the biography of Mr. WANG Yincheng.

Mr. ZHOU Liqun, aged 49, is a vice president of the company and a Senior Accountant. Mr. Zhou is in charge of the Secretariat of the Board and Office of the Board of Supervisors, the Finance Management Department and the Investment and Finance Management Department and is responsible for PICC AMC. Mr. Zhou worked at the county level and provincial level government financial departments engaging in general budget and credit management of the World Bank from July 1981 to September 1983, and from October 1989 to September 1994. Mr. Zhou joined the Bank of Communications in October 1997 and until April 2001, served as deputy general manager of the Marketing Department, deputy general manager of the Overseas Business Department and International Business Department of the main branch. Mr. Zhou joined China Everbright Group in April 2001 and until August 2007, served successively as executive director, deputy general manager and chief executive officer of China Everbright Limited (listed on the Stock Exchange of Hong Kong Limited, Stock Code: 0165), director and vice president of Everbright Securities Company Limited (listed on the Shanghai Stock Exchange, Stock Code: 601788), chairman of the Board of Everbright Pramerica Fund Management Co., Ltd., director of China Everbright Holdings Company Limited, director of China Everbright Bank and director of International Bank of Asia Limited (now known as Fubon Bank (Hong Kong) Limited). Mr. Zhou joined the company in August 2007 and has since served as vice chairman of the Board and president of PICC AMC, and vice president of the company since March 2009. He also served as chairman of the Board of PICC Investment since July 2008, independent director of the Bank of Qingdao from May 2009 to September 2012 and chairman of the Board of Supervisors of PICC P&C since January 2011. Mr. Zhou did not hold any directorship in any listed companies in the last three years. Mr. Zhou has served as a standing director of The Insurance Institute of China since November 2011. Mr. Zhou graduated from Xiamen University in June 1997 with a Doctoral Degree in Economics.

Mr. LI Yuquan, aged 47, is a vice president of the company and an Associate Professor. Mr. Li is responsible for PICC Health. Mr. Li joined the company in July 1994 and until July 2003, served successively as office deputy division director and director, deputy general manager of the Market Development Department and general manager of the Legal Department. Mr. Li served as a vice president of PICC P&C from July 2003 to August 2007 and general manager of its Legal Department from July 2003 to March 2006, general manager of its Shanghai branch from May 2004 to December 2005 and its compliance controller from February 2007 to August 2007. Mr. Li has served as vice chairman of the Board and president of PICC Health since August 2007, and vice president of the company since March 2011. Mr. Li was awarded the qualifications of Committee Member and Arbitrator of the China International Economic and Trade Arbitration Commission, Committee Member, Arbitrator and Member of the Expert Consultation Committee of the China Maritime Arbitration Commission in April 2001, and Arbitrator of the Beijing Arbitration Committee in September 2003. Mr. Li did not hold any directorship in any listed companies in the last three years. Mr. Li has served as a director of The Insurance Institute of China since November 2011. Mr. Li was awarded the Special Government Allowance by the State Council in August 2005. Mr. Li graduated from Hangzhou University (merged with Zhejiang University in September 1998 to form the new Zhejiang University) in July 1986 with a Bachelor's Degree in Law and obtained a Master's Degree in Civil Law in July 1989 and a Doctoral Degree in Private International Law in July 1994 from Wuhan University.

Ms. YU Xiaoping, aged 55, is the chief investment officer of the company and a Senior Economist. Ms. Yu worked at the People's Construction Bank of China as deputy director of the Real Estate Credit and Loan Department from January 1982 to March 1994, at the China Development Bank successively as controller and deputy director of the International Finance Bureau, president (bureau level) of the Wuhan branch, and controller and president (bureau level) of the Shenzhen branch from March 1994 to January 2010. Ms. Yu has served as chief investment officer of the company since January 2010. Ms. Yu has served as a director of China Credit Trust Company Limited since November 2010, non-executive director of PICC P&C since January 2011 and chairwoman of the Board of No. 88 Development Co. since March 2011. Ms. Yu graduated from Tongji University in January 1982 with a Bachelor's Degree in Industrial and Civil Construction (工業與民用建築) and from Renmin University of China in July 1988 with a Bachelor's Degree in Economics of Capital Construction (基建經濟).

Mr. SHENG Hetai, aged 42, is an assistant to the president and general manager of the Strategic Planning Department of the company, and a Senior Economist. Mr. Sheng joined the company in July 1998 and until September 2007, served successively as deputy director of the Product Development Center, deputy general manager (in charge of daily operations) of the Research and Development Department, general manager of the Equity Management Department/ Risk Management Department. Mr. Sheng has served as general manager of the Strategic Planning Department of the company since September 2007, senior expert from May 2008 to May 2010 and assistant to the president since March 2010. He has also served as a director of Prime Insurance Brokers Company Limited (中元保險經紀有限公司) since February 2005 and supervisor of PICC P&C since August 2006. Mr. Sheng did not hold any directorship in any listed companies in the last three years. Mr. Sheng has served as a director of The Insurance Institute of China since September 2004. Mr. Sheng graduated from Peking University in July 1998 with a Doctoral Degree in Economics.

Mr. HAN Kesheng, aged 47, is an assistant to the president and general manager of the Human Resources Department of the company, and a Senior Economist. Mr. Han joined the National Ministry of Supervision in July 1991, the CPC Central Commission for Discipline Inspection in January 1993 and until May 2001, served successively as deputy division level inspector, division level inspector and supervisor of the General Office. Mr. Han joined the company in May 2001 and served successively as assistant to the general manager and deputy general manager of the Human Resources Department of the company, deputy general manager of the Human Resources Department of PICC P&C and general manager of the Supervisory Department/Auditing Department of the company. Mr. Han has served as general manager of the Human Resources Department of the company since September 2007 and assistant to the president since March 2010. Mr. Han did not hold any directorship in any listed companies in the last three years. Mr. Han graduated from Anhui Normal University in July 1985 with a Bachelor of Arts Degree and from Nankai University in July 1991 with a Master's Degree in World Literature.

Mr. LI Tao, aged 46, is the secretary to the Board and general manager of the Secretariat of the Board and Office of the Board of Supervisors of the company, and a Senior Economist. Mr. Li's career began in July 1985. Mr. Li joined the company in July 1998, and served successively as director of the Policy Research Office of the Research and Development Center and deputy director of the Research and Development Center of the company, deputy director and director of the secretariat of the Board of PICC P&C, general manager of the Development and Reform Department and director of the Policy Research Office of the company from March 2006 to September 2007, and senior expert from September 2007 to January 2010. Mr. Li served as the deputy director of the Share Transformation Office of the company from March 2008 to September 2009 and has been the secretary to the Board since September 2009. He has served as a non-executive director of PICC P&C since November 2006. Mr. Li graduated from Renmin University of China in July 1993 with a Master's Degree in Philosophy and from the Party School of the Central Committee in July 1998 with a Doctoral Degree in Political Economics.

Mr. ZHAO Jun, aged 52, is the chief information technology officer and general manager of the South Information Center of the company, and a Senior Engineer. Mr. Zhao joined the company in November 1993 and until July 2003, served successively as deputy general manager and general manager of the Information Technology Department. Mr. Zhao served as general manager of the Information Technology Department of PICC P&C from July 2003 to June 2005, general manager of the Statistics and Information Department of the company from June 2005 to March 2006, general manager of the Information Technology Department/Statistical Analysis Department in March 2006, chief information technology officer since September 2007 and general manager of the South Information Center since January 2010. Mr. Zhao did not hold any directorship in any listed companies in the last three years. Mr. Zhao was awarded the Special Government Allowance by the State Council in February 2007. Mr. Zhao graduated from Hunan University in December 1981 with a Bachelor's Degree in Engineering and from the University of Bradford in November 1993 with a Master's Degree in Applied Computer Science.

Mr. ZHOU Houjie, aged 48, is the financial controller and chief financial officer of the company, and an Accountant. Mr. Zhou served successively as deputy general manager and general manager of the Finance Department of China Union Pay Company Limited, general manager of its Shanghai branch and general manager of its Banking Service Department from March 2002 to July 2008. Mr. Zhou served as vice president of China Huawen Investment Holding Company Limited and vice president of Shanghai Xin Huawen Investment Company Limited from July 2008 to July 2010 and has served as the financial controller and chief financial officer of the company since January 2010. He has served as a non-executive director of Shanghai New Huang Pu Real Estate Co., Ltd. (listed on the Shanghai Stock Exchange, Stock Code: 600638) from September 2008 to September 2010. Mr. Zhou graduated from the Central Institute of Finance and Economics (now known as Central University of Finance and Economics) in June 1991 with a Bachelor's Degree in Accounting and Shanghai National Accounting Institute in June 2005 with an Executive Master of Business Administration Degree.

EMPLOYEES

As at 31 December 2012, the Group had a total of 177,243 employees, including regular empolyees and contract labor staff. For the year ended 31 December 2012, staff salaries paid to the employees by the Company and its subsidiaries was RMB17.464 billion in total, which mainly included fixed salaries, performance bonuses as well as contributions to insurance and benefit plans for their employees in accordance with relevant PRC regulations. The Company and its subsidiaries enhance the performance and efficiency of employees by providing various career development paths, strengthening staff training and implementing performance review.

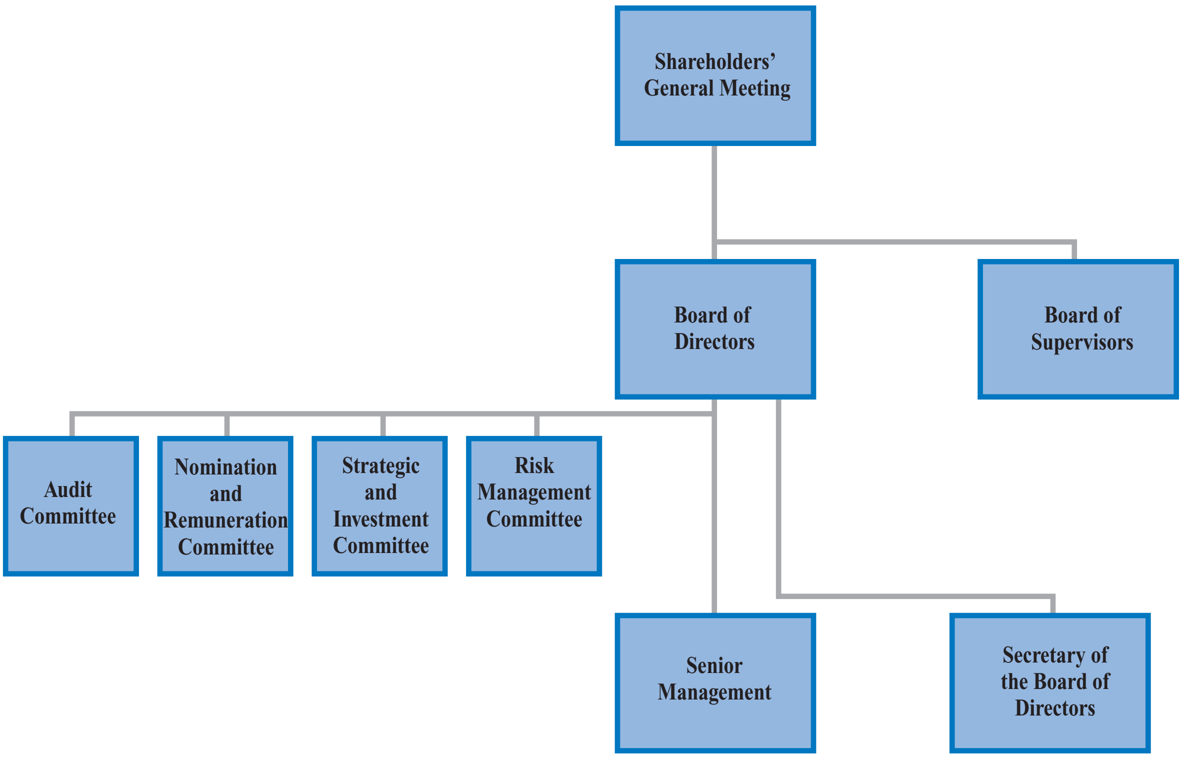
Corporate Governance Report

OVERVIEW

The Company pursues sound corporate governance and believes that good corporate governance is in the interests of the Company, its shareholders and related stakeholders. The Company has been in strict compliance with the Company Law of the People's Republic of China (the "Company Law"), Insurance Law of the People's Republic of China and other applicable laws and regulations, and continues to enhance its level of corporate governance according to the requirements of the Listing rules, the Guiding Opinions on Regulating the Corporate Governance Structure of Insurance Companies (Tentative) and the Articles of Association.

Save for the requirement that "every Director should be subject to retirement by rotation at least once every three years" under the code provision A.4.2 of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules (the "Corporate Governance Code"), the Company had complied with all other code provisions of the Corporate Governance Code in 2012, adopted recommended best practices under appropriate circumstances and continued to perfect its corporate governance structure. The general meeting, Board, Board of Supervisors and senior management independently performed their respective rights and obligations pursuant to the Articles of Association, which is in compliance with laws and regulatory requirements.

The chart of corporate governance structure of the Company is set out below:



During the reporting period, the Company, in accordance with regulatory requirements, has amended the Articles of Association, the rules of procedure of general meeting, the Board meeting and meeting of the Board of Supervisors (the "Rules of Procedure of Three Meetings") and the working rules of the Board committees, formulated a set of rules and systems in respect of information disclosure and connected transactions and improved its corporate governance system.

SHAREHOLDERS' GENERAL MEETING

The shareholders' general meeting is the most authoritative organ of the Company, and its main responsibilities include, but are not limited to, the following: (1) decide the operating policies and material investment plans of the Company; (2) elect and replace the members of the Board and members of the Board of Supervisors who are not representative of the employees of the Company, and decide on matters related to the remuneration of Directors and Supervisors; (3) consider and approve the report of the Board; (4) consider and approve the report of Supervisors; (5) consider and approve the annual financial budget and final accounts of the Company; (6) consider and approve the Company's profit distribution plan and loss recovery plan; (7) consider and approve matters related to the Company's establishment of legal entities, material investments and external donations etc. (except matters authorized to be considered and approved by the Board), (8) consider and approve matters when the Company acts as the guarantor; (9) resolve on the increase or decrease in registered capital of the Company; (10) resolve on the listing, issuance of securities, or corporate bonds; (11) resolve on matters related to merger, separation, dissolution, liquidation of the Company or alternation on the form of the Company; (12) resolve on matters related to repurchase of shares of the Company; (13) formulate and amend the Articles of Association, rules of procedures for general meeting, Board and Board of Supervisors; (14) resolve on the appointment or change of the Company's accounting firm performing regular statutory audits for the financial and accounting reports of the Company; (15) consider and approve related party transactions required to be approved by the general meeting under the laws, regulations, regulatory documents or requirements of the securities regulatory authorities where the Company's shares are listed, and the authorization scheme of the Company; (16) consider and approve the change in the use of proceeds; (17) consider the motion raised by the shareholders representing more than 3% of outstanding shares with voting rights; and (18) consider other matters required to be determined by the shareholders' general meeting as required by applicable laws, regulations, regulatory documents, the relevant requirements of the securities regulatory authorities at the places where the Company's shares are listed, and the Articles of Association.

During the reporting period, the Company convened six general meetings, and the major matters put forward for consideration and approval at the meetings included:

- Elected Ms. ZHANG Hanlin, Mr. LAU Hon Chuen and Mr. DU Jian as Directors and Mr. LIN Fan as Supervisor;
- Considered and approved the reports of the Board and the Board of Supervisors for the year 2011;
- Considered and approved the financial report of the Company for the year 2011;
- Considered and approved the Company's profit distribution plan for the year 2011;
- Considered and approved the financial budget plan of the Company for the year 2012;
- Considered and approved the Company's IPO and related matters;
- Considered and approved the amendment proposals for the Articles of Association and Rules of Procedure of Three Meetings of the Company;
- Considered and approved to authorize the Board to deal with liability insurances and prospectus liability insurances for the directors, supervisors and senior management of the Company; and
- Received the performance report of the directors of the Company for the year 2011 and performance report of the independent directors of the Company for the year 2011 as well as the report on the status of the Company's connected transactions and the implementation of the connected transactions management system for the year 2011.

SHAREHOLDERS' GENERAL MEETING *(continued)*

The shareholders' general meetings established effective channels for communicating with shareholders, ensured that the shareholders have the right to know, participate in and vote on major matters of the Company.

According to the Articles of Association, shareholders may obtain information such as the register of members, individual profiles of directors, supervisors and senior management, share capital and minutes of general meetings. Shareholders are entitled to supervise and manage, advise on or enquire about the business and operations of the Company through the Secretariat of the Board or in the general meeting.

Methods of Convening Extraordinary General Meetings

According to the Articles of Association, any shareholder(s), whether individually or collectively, holding 10% or more of the voting shares of the Company may request in writing to convene an extraordinary meeting and such shareholder(s) shall submit the resolution(s) to the Board. If the Board is satisfied that the resolution(s) complies with the requirements under the laws, regulations and the Articles of Association, it shall issue a notice of extraordinary general meeting within five days after the resolution of the Board.

Procedures for Proposing Resolutions at General Meetings

When shareholders' general meetings are held by the Company, the shareholders individually or jointly holding more than 3% of the shares in the Company have the right to make proposals, while provisional proposals shall be made before ten days prior to the convening of general meeting and shall be submitted in writing to the convener. The convener shall, within two days after the receipt of such proposal, give supplementary notice of the general meeting on the details of such proposal.

Specific enquiries and suggestions by shareholders can be sent in writing to the Board at our registered address or by e-mail to our Company. In addition, shareholders can contact Computershare Hong Kong Investor Services Limited, the H share registrar of the Company, if they have any enquiries about the shareholdings and entitlement to dividend. Relevant contact details are set out under "Corporate Information" of this annual report.

THE BOARD

The Board is a decision-making organ of the Company. It shall hold at least four regular meetings every year, and hold extraordinary meetings as required. Notice of regular meetings shall be given to all Directors at least 14 business days before the date of meeting (excluding the date of the meeting). Notice of extraordinary meetings shall be given to all Directors at least five business days before the date of meeting (excluding the date of the meeting). Detailed minutes shall be kept for every meeting.

Composition

As at 31 December 2012, the Board comprised 12 directors (see "Directors, Supervisors, Senior Management and Employees" in this annual report for the profiles of current Directors), consisting of three executive directors, four non-executive directors and five independent non-executive directors. Directors serve a term of three years and are eligible for re-election, but independent non-executive directors shall not serve consecutively for more than six years.

THE BOARD *(continued)*

Composition *(continued)*

During the year ended 31 December 2012 (the "Year"), the Board comprised the following directors:

Name	Position	Date of Appointment
WU Yan	Chairman of the Board and Executive Director	28 September 2009
DING Yunzhou (resigned)	Executive Director	28 September 2009
WANG Yincheng	Executive Director	28 September 2009
LI Liangwen	Executive Director	28 September 2009
CAO Guangsheng	Non-executive Director	28 September 2009
LIU Yeqiao	Non-executive Director	28 September 2009
QI Shaojun	Non-executive Director	18 November 2009
ZHANG Hanlin	Non-executive Director	17 April 2012
HU Donghui (resigned)	Non-executive Director	28 September 2009
XIANG Huaicheng	Independent Non-executive Director	28 September 2009
LAU Hon Chuen	Independent Non-executive Director	19 October 2012
DU Jian	Independent Non-executive Director	19 October 2012
CAI Weiguo	Independent Non-executive Director	18 November 2009
XU Dingbo	Independent Non-executive Director	28 September 2009

The changes in directors of the Company during the Year, were as follows:

On 26 March 2012, Ms. HU Donghui resigned as non-executive director. On 17 April 2012, Ms. ZHANG Hanlin was appointed as non-executive director at the second general meeting of the Company in 2012. On 14 June 2012, Mr. LAU Hon Chuen and Mr. DU Jian were appointed as independent non-executive directors at the fourth general meeting of the Company in 2012. On 19 October 2012, the appointments of Mr. LAU Hon Chuen and Mr. DU Jian were approved by the CIRC. On 6 November 2012, Mr. DING Yunzhou resigned as executive director.

The terms of directorship of Mr. WU Yan, Mr. WANG Yincheng, Mr. LI Liangwen, Mr. CAO Guangsheng, Mr. LIU Yeqiao, Mr. QI Shaojun, Mr. XIANG Huaicheng, Mr. CAI Weiguo and Mr. XU Dingbo expired respectively since 28 September 2012. According to the requirements of the Company Law and Articles of Association, the directors shall serve consecutive terms if re-election is not conducted in a timely manner upon the expiry of his term of office or if the resignation of directors results in the number of directors being less than the statutory requirement. Accordingly, the above-mentioned Directors will continue to serve as Directors until the newly elected director commences his/her term of office. Therefore, the Company was not in compliance with the requirement in A.4.2 of Corporate Governance Code: Each director shall retire from office by rotation at least once every three years.

THE BOARD *(continued)*

Duties and Responsibilities

The Board shall, according to the Articles of Association, report in the shareholders' general meeting according to the Articles of Association, and its main responsibilities include, but are not limited to, the following: (1) convene shareholders' general meetings; (2) implement the resolutions of the shareholders' general meetings; (3) determine the development strategies, annual operation plans and investment plans of the Company; (4) formulate annual financial budget and final account statements of the Company; (5) formulate profit distribution plans and loss recovery plans of the Company; (6) formulate proposals for increases or reductions of the Company's registered capital and the issue of corporate bonds or other securities by the Company or the listing of the Company; (7) formulate plans for the repurchase of shares of the Company or merger, separation, dissolution and changes of the form of the Company; (8) formulate proposals for any amendment to the Articles of Association; (9) review and approve the Company's connected transactions as required by laws, regulations or regulatory documents (within the scope of approval by a shareholders' general meeting); and review and approve the establishment of corporate legal entities, capital expenditures and external donations and other matters; (10) decide on the Company's establishment and the structure of the internal management structure of the Company; (11) appoint or remove the president, vice-president, secretary of the Board, assistant to the president, and persons in charge of finance, compliance or audit, and determine their remunerations and incentive schemes; (12) elect members of other professional committees of the Board; (13) submit to the shareholders' general meeting on the appointment or removal of an accounting firm; (14) determine risk management, compliance and internal management policies, formulate internal control compliance management and internal audit systems, and approve the Company's annual risk evaluation report, compliance report and internal control assessment report; (15) review and approve the corporate governance report; and (16) exercise such other functions and powers as granted by laws, regulations, regulatory documents, the Articles of Association and the shareholders' general meeting.

THE BOARD *(continued)*

Summary of Work Undertaken

During the reporting period, the Board convened six general meetings in total (5 of which were written resolutions and 1 of which was onsite meeting), made 25 proposals to the shareholders' general meeting for review and approval and submitted three reports; convened nine Board meetings, reviewed and approved 60 resolutions and received six reports; formulated the annual operation plan and financial budget; made annual assessment for the Directors and senior management; approved various resolutions in respect of the Company's IPO, acquisition of equity interest in Industrial Bank Co., Ltd ("Industrial Bank"), issuance of subordinated fixed term debts and amendment of the Articles of Association; reviewed and approved the Company's reports concerning internal control, compliance management and risk control; and made comprehensive evaluation on the corporate governance of the Company for the year 2011.

During the reporting period, the directors' attendance records of the onsite general meeting were as follows:

Name	Attendance in person/scheduled attendance	Percentage of attendance in person
WU Yan	1/1	100%
DING Yunzhou (resigned)	0/1	0%
WANG Yincheng	1/1	100%
LI Liangwen	0/1	0%
CAO Guangsheng	1/1	100%
LIU Yeqiao	1/1	100%
QI Shaojun	1/1	100%
ZHANG Hanlin	1/1	100%
HU Donghui (resigned) [1]	0/0	0%
XIANG Huaicheng	0/1	0%
LAU Hon Chuen [2]	0/0	0%
DU Jian[3]	0/0	0%
CAI Weiguo	0/1	0%
XU Dingbo	0/1	0%

Note:

1. Ms. HU Donghui already resigned as non-executive director on 26 March 2012.

2. Mr. LAU Hon Chuen was not appointed as independent non-executive director at the time when the onsite general meeting was held.

3. Mr DU Jian was not appointed as independent non-executive director at the time when the onsite general meeting was held.

THE BOARD *(continued)*

Summary of Work Undertaken *(continued)*

During the reporting period, the directors' attendance records of Board meetings were as follows:

Name	Attendance in person/scheduled attendance	Percentage of attendance in person	Attendance by proxy/scheduled attendance	Percentage of attendance by proxy
WU Yan	9/9	100%	0/9	0%
DING Yunzhou (resigned)	4/6	67%	2/6	33%
WANG Yincheng	7/9	78%	2/9	22%
LI Liangwen	8/9	89%	1/9	11%
CAO Guangsheng	9/9	100%	0/9	0%
LIU Yeqiao	9/9	100%	0/9	0%
QI Shaojun	9/9	100%	0/9	0%
ZHANG Hanlin	7/7	100%	0/7	0%
HU Donghui (resigned)	2/2	100%	0/2	0%
XIANG Huaicheng	6/9	67%	3/9	33%
LAU Hon Chuen	3/3	100%	0/3	0%
DU Jian	3/3	100%	0/3	0%
CAI Weiguo	9/9	100%	0/9	0%
XU Dingbo	9/9	100%	0/9	0%

THE BOARD *(continued)*

Summary of Work Undertaken *(continued)*

Notes:

1. Mr. DING Yunzhou resigned as executive director on 6 November 2012;
2. Ms. ZHANG Hanlin was formally appointed as non-executive director of the Company on 17 April 2012;
3. Ms. HU Donghui resigned as non-executive director on 26 March 2012;
4. Mr. LAU Hon Chuen and Mr. DU Jian were formally appointed as independent non-executive directors of the Company on 19 October 2012.

During the reporting period, the main tasks accomplished by the Board included:

- Convened six general meetings;
- Considered and approved the resolutions in respect of election of members of the nomination and remuneration committee, strategy and investment committee and audit committee by the first session of the Board;
- Considered and approved the appointment of Mr. ZHOU Shurui as a vice president of the Company;
- Considered and approved the operation plans and financial budget of the Company for the year 2012;
- Considered and approved the final account report of the Company for the year 2011;
- Considered and approved relevant resolutions in respect of the Company's plans for IPO, global offering arrangement of H Share and related matters;
- Considered and approved the resolutions concerning purchase of liability insurances for the directors, supervisors and senior executives and relevant issues concerning liability insurances for the Company's prospectus;
- Considered and approved a number of rules and regulations of the Company such as *Working Rules of Independent Directors (Interim); Administrative Measures for Connected Transactions; Interim Management Measures for Information Disclosure, Interim Management Measures for Investor Relations, Interim Management Measures for Foreign Investments; Interim Measures for Fund-raising, Interim Management Measures for Shareholding and its Movement in the Company of Our Directors; Supervisors and Senior Management; Interim Management Measures for Regulation of the Funds with Related Parties; Working Procedures for Annual Report of Independent Directors (Interim); Working Procedures for Annual Report of the audit committee of the Board (Interim); Interim Accountability System for Major Errors in Information Disclosure in Annual Reports; Interim Management Measures and Registration Procedures Relating to Persons in Possession of Inside Information; Interim Management Measures for Internal Report of Material Information and Working Rules for the Secretary to the Board (Interim);*
- Considered and approved the amendment proposals for the Articles of Association and Rules of Procedure of Three Meetings of the Company; approved the amendment proposals for terms of references of each professional committee under the Board;
- Considered and approved the general authorization scheme of the Company's management;

THE BOARD *(continued)*

Summary of Work Undertaken *(continued)*

- Considered and passed the resolution concerning acquisition of equity interest in Industrial Bank;

- Considered and passed the resolution concerning payment of remuneration for the Directors and key personnel of the Company;

- Considered and approved the Company's self-assessment report on internal control, risk evaluation report, compliance report for the year 2011 and self-assessment report on internal control for the first half of 2012;

- Considered and passed the resolution concerning issuance of subordinated fixed term debts by the Company;

- Received the performance reports of the Directors for the year 2011 and performance reports of the Independent Directors of the Company for the year 2011, reports on the Company's connected transactions and the implementation of its connected transactions management system for the year 2011, report on specific auditing results of connected transactions of the Company for the year 2011 and internal audit work summary of the Company for the first half of 2012.

DIRECTORS

Responsibility with respect to Financial Statements

The Directors are responsible for the preparation of financial statements for every financial year and the interim period thereof which shall reflect a true and fair view of the business operations of the Company in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board, and, subject to compliance with the International Accounting Standards, the implementation of the accounting regulations issued by the Ministry of Finance and CIRC.

Securities Transactions

The Company has established the *Interim Management Measures for Shareholding and their Changes of Shares of the Company's Directors, Supervisors and Senior Management* to regulate the dealing in securities by directors, and such measures are no less exacting than the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix to the Listing Rules (the "Model Code"). Following enquiries made by the Company, all the Directors and supervisors confirmed that they had complied with the standards set out in the Model Code and such measures during the reporting period.

Independence of independent non-executive directors

The Company has received annual confirmation letters from each of the independent non-executive directors to confirm their independence. As at the latest practicable date prior to the issue of this report, the Company considers that all independent non-executive directors are independent.

DIRECTORS *(continued)*

Training of directors

All directors are actively involved in continuing professional development, and participated in various kinds of training activities relating to corporate governance and the Listing Rules which were organized by the shareholding organizations, regulators, industry organizations and the Company, so as to provide them with comprehensive and relevant information to develop and update their knowledge and skills and improve their performance ability, with an aim to making positive contributions to the Board.

Chairman/President

The chairman of the Company for this year is Mr. WU Yan. The chairman is responsible for providing leadership to the Board, determining and approving the agenda for each board meeting, ensuring the Company has good corporate governance practices and procedures, and maintaining the effective operation of the Board.

Mr. WU Yan served as the president of the Company from September 2009 to March 2012. The office of president of the Company has been vacant since March 2012 pending for the relevant appointment to be made by the Board to fill the vacancy. The president is responsible for leading the operation management of the Company, implementing Board resolutions, organizing the implementation of annual operation plans and investment proposals, formulating the internal management organization plan and basic management system, and making recommendations to the Board regarding the appointment or dismissal of other senior management. Details of the duties and responsibilities of the chairman and president are set out in the Articles of Associations.

BOARD COMMITTEES

These are four committees under the Board, namely the audit committee, the nomination and remuneration committee, the strategy and investment committee and the risk management committee. Each committee provides advices and suggestions to the Board with respect to the matters within their scopes of responsibilities. The duties and operation process are explicitly stipulated in the terms of reference of each committee.

Audit Committee

As at the end of the reporting period, the audit committee of the Board of the Company comprised of three directors including two independent non-executive directors and one non-executive director, and an independent non-executive director served as the chairman.

Composition

Chairman: XU Dingbo (independent non-executive director)

Members: LAU Hon Chuen (independent non-executive director), CAO Guangsheng (non-executive director)

Duties and Responsibilities

The audit committee is mainly responsible for reviewing and implementing the Company's internal control system, reviewing and monitoring the Company's internal audit system and related transaction system and their implementations, making recommendations on the appointment of an external auditor and overseeing its relationship with the Company, reviewing the Company's financial information and supervising its financial reporting, and making judgments on the truthfulness, completeness and accuracy of the financial information.

BOARD COMMITTEES *(continued)*

Audit Committee *(continued)*

Duties and Responsibilities (continued)

The primary duties of the audit committee include, but are not limited to, the following: (1) review the Company's material financial and accounting policies and practices and their implementation, and supervise our financial operation; (2) evaluate audit controller's performance and make recommendations to the Board; (3) review the Company's fundamental internal audit system and make recommendations to the Board, approve the Company's annual audit plan and budget, supervise internal audit process and monitor its effectiveness; (4) regularly review and assess the soundness and effectiveness of our internal control system on an annual basis, and promptly consider and handle any major complaints in connection with our internal control system; (5) co-ordinate between the internal and external auditors, supervise the improvement and implementation of any significant findings arising out of the internal and external audit; (6) make recommendations to the Board on the appointment, removal, and remuneration of the external auditors, monitor the independence and objectivity of the external auditors as well as the effectiveness of the audit procedures according to applicable standards; (7) develop and implement policy on engaging external auditors to supply non-audit services; (8) ensure that the Board will provide a timely response to the issues raised in the external auditors' management letter; (9) review the annual audit reports prepared by our external auditors and other specific opinions, annual audited financial reports and other financial information that is required to be disclosed; give a judgment and report to the Board for review on the truthfulness, completeness and accuracy of the information in the aforementioned financial accounting reports; (10) identify the related parties of our Company and report to the Board and the Board of Supervisors of the Company (the "Board of Supervisors"), and promptly notify relevant employees of the related parties identified; (11) perform an initial assessment on any related party transactions that are to be approved at a shareholders' general meeting and Board meeting and submit them to the Board for approval; (12) review and approve or accept filings of related party transactions as authorized by the Board; (13) submit to the Board upon completion of an operational year a detailed report of the Company's related party transactions, implementation of policies governing related party transactions, and the overall status, risk level and structural distribution of our related party transactions that occurred within the operational year; and (14) perform other duties as required by applicable laws, regulations, regulatory documents, the Articles of Association, the relevant requirements of the securities regulatory authorities at the places where the shares of the Company are listed, and other matters as authorized by the Board.

BOARD COMMITTEES *(continued)*

Audit Committee *(continued)*

Auditor's fees

The fee in respect of audit services of the financial reports signed by the Company and its subsidiaries with the auditor was RMB25.50 million for the Year. For the audit engagements of the overall listing and internal control services signed between the Company and the auditor, the total contract value amounted to RMB21.68 million and RMB5.85 million, respectively.

Summary of Work Undertaken

During the year, the audit committee held four meetings, of which 12 proposals were reviewed and approved. Attendance of the members were as follows:

Name	XU Dingbo	LAU Hon Chuen	CAO Guangsheng	Hu Donghui
Attendance in person/scheduled attendance	4/4	/	4/4	1/1
Percentage of attendance in person	100%	/	100%	100%
Attendance by proxies/scheduled attendance	0/4	/	0/4	0/1
Percentage of attendance by proxy	0%	/	0%	0%

Note:

1. Mr. LAU Hon Chuen served as an independent non-executive director of the Company since 19 October 2012 and started to perform duties and responsibilities as a member of the audit committee on the same date. No meetings were held by the audit committee from 19 October to 31 December 2012.

2. Ms. HU Donghui resigned as a non-executive director on 26 March 2012 and ceased to be a member of the audit committee on the same date.

During the reporting period, the main tasks accomplished by the audit committee included:

- Reviewed and assessed the Company's connected transactions and the implementation of its connected transactions management system;

- Studied and reviewed the internal audit work summary for the year 2011 and for the first half of 2012 and the audit work plan and budget for the year 2012;

- Reviewed and assessed rules and regulations of the Company such as *Management Measures for Connected Transactions, Interim Management Measures for Regulation of the Funds with Related Parties, Working Procedures for Annual Report of the audit committee of the Board (interim)*;

- Reviewed and assessed the self-assessment program on internal control and self-assessment report on internal control of for the year 2011 and for the first half of the year 2012;

- Reviewed and assessed the audited financial statements for each of the years ended 31 December 2009, 2010 and 2011, and the six months ended 30 June 2012, and the reviewed financial statements for the six months ended 30 June 2011.

BOARD COMMITTEES *(continued)*

Nomination and Remuneration Committee

As at the end of the reporting period, the nomination and remuneration committee of the Company comprised of five directors including three independent non-executive directors and two non-executive directors, and an independent non-executive director served as the chairman.

Composition

Chairman:	XIANG Huaicheng (independent non-executive director)
Members:	DU Jian (independent non-executive director), XU Dingbo (independent non-executive director), LIU Yeqiao (non-executive director), QI Shaojun (non-executive director)

Duties and Responsibilities

The Nomination and Remuneration Committee shall, within its terms of reference, assist the Board in formulating the procedures and criteria for electing and appointing the directors and senior management of the Company, conducting initial assessments of the qualifications and background of the potential suitable candidates, reviewing and formulating remuneration plans, performance evaluation systems and incentive schemes for the directors, supervisors and senior management; making proposals to the Board, and overseeing the implementation of the plans and systems.

The primary duties of the nomination and remuneration committee include, but are not limited to, the following: (1) analyze the standards and procedures for selection of directors and senior management hired by the Board; review at least annually the structure, size and composition of the Board (in respect of skills, knowledge and experience among other things); and make recommendations to the Board regarding any proposed changes in order to comply with our corporate strategy; (2) extensively seek for candidates that are qualified to act as a director or be hired by the Board as a member of the senior management, and make recommendations to the Board; (3) review the independence of independent non-executive directors; (4) assess and review the candidates for director and senior management to be potentially hired by the Board, and make recommendations to the Board on plans for appointment, re-appointment and succession of directors, especially plans for succession of the chairman and the chief executive; (5) examine the assessment standards for directors and senior management hired by the Board, conduct the relevant assessments and make recommendations to the Board; (6) consider, formulate and examine the remuneration policies and proposals for directors, supervisors and senior management hired by the Board through formal and transparent procedures based on standards including salaries paid by comparable companies, time commitment and responsibilities concerned, and employment terms of other positions within our Company and its subsidiaries, and make recommendations to the Board; (7) examine the remuneration proposals of directors and senior management hired by the Board based on the corporate goals and objectives established by the Board; (8) make recommendations to the Board on special remuneration packages of executive directors, supervisors and senior management hired by the Board, including benefits in kind, pension rights and compensation for loss or termination of office or appointment; (9) make recommendations to the Board on the remuneration of non-executive directors and independent non-executive directors; (10) make independent and prudent suggestions on removal of directors; (11) review and approve compensation payable to executive directors, supervisors and senior management hired by the Board for any loss or termination of office or appointment to ensure that it is consistent with the terms of related service contracts is otherwise fair and reasonable and not excessive; (12) review and approve compensation arrangements relating to dismissal or removal of directors for misconduct to ensure that it is consistent with the terms of related service contracts or is otherwise reasonable and appropriate; (13) perform other duties as required by applicable laws, regulations, regulatory documents, the Articles of Association, these regulations, the relevant requirements of the securities regulatory authorities at the places where the shares of our Company are listed, or other matters as authorized by the Board.

BOARD COMMITTEES *(continued)*

Nomination and Remuneration Committee *(continued)*

Director nomination

The nomination and remuneration committee conducts a preliminary examination of the potential candidates for directorship of the Company according to laws, regulations, regulatory documents, regulatory requirements and the Articles of Association, and provides recommendation opinions to the Board for determining whether they are submitted to the general meeting for election. The nomination and remuneration committee focuses on the educational background and working experiences, in particular management and research experiences in finance and insurance industries of the candidates, and also pay special attention to the independence of the independent non-executive directors.

Remuneration of Directors and Other Senior Management

The fixed salary of the executive directors and other senior management is determined in accordance with the market levels and their respective duties and responsibilities, and the amount of their performance-related bonuses is determined according to the various factors including the operating results of the Company and scores on performance appraisals. The amounts of directors' fees and supervisors' fees are determined with reference to the market levels and the circumstances of the Company.

Summary of Work Undertaken

During the year, the nomination and remuneration committee held five meetings, at which nine proposals were studied and reviewed. Attendance of the members were as follows:

Name	XIANG Huaicheng	DU Jian	XU Dingbo	LIU Yeqiao	QI Shaojun
Attendance in person/scheduled attendance	5/5	1/1	3/5	5/5	5/5
Percentage of attendance in person	100%	100%	60%	100%	100%
Attendance by proxy/scheduled attendance	5/5	0/1	2/5	0/5	0/5
Percentage of attendance by proxy	0%	0%	40%	0%	0%

Note:

1. Mr. DU Jian served as an independent non-executive director of the Company since 19 October 2012 and started to perform duties and responsibilities as a member of the nomination and remuneration committee at the same time.

During the reporting period, the main tasks accomplished by the nomination and remuneration committee included:

- Reviewed and considered relevant matters in respect of nominating Ms. ZHANG Hanlin as director of the first session of the Board and made nomination recommendation to the Board;

- Reviewed and considered relevant matters in respect of nominating Mr. LAU Hon Chuen and Mr. DU Jian as independent non-executive directors of the first session of the Board and made nomination recommendation to the Board;

BOARD COMMITTEES *(continued)*

Nomination and Remuneration Committee *(continued)*

Summary of Work Undertaken (continued)

- Reviewed the nomination of Mr. ZHOU Shurui as vice president of the Company, and provided recommendations to the Board, which has been approved by the Board;
- Reviewed relevant matters concerning the election of members to the first session of the audit committee, strategy and investment committee under the Board, and provided recommendations to the Board, which have been approved by the Board;
- Reviewed the implementation of the performance appraisal and incentive scheme of the Company for the year 2011;
- Considered the compensation plan of of the Company's key personnel for the year in 2011;
- Considered the remuneration settlement plan for directors and supervisors of the Company for the year 2011.

Strategy and Investment Committee

As at the end of the reporting period, the strategy and investment committee of the Company comprised of four directors including one executive director, two non-executive directors and one independent non-executive director. Pursuant to the Articles of Association, the chairman of the committee is served by the chairman of the Board.

Composition

Chairman:	WU Yan (executive director)
Members:	XIANG Huaicheng (independent non-executive director), CAO Guangsheng (non-executive director), ZHANG Hanlin (non-executive director)

BOARD COMMITTEES *(continued)*

Strategy and Investment Committee *(continued)*

Duties and Responsibilities

The strategy and investment committee is mainly responsible for studying the mid to long-term development strategies and major investment decisions of the Company and providing advices.

The primary duties of the strategy and investment committee include, but are not limited to, the following: (1) review our general development strategy and specific development strategies, and make recommendations to the Board; (2) evaluate factors that may have an impact on our strategic development plans and its implementation in light of domestic and international economic financial conditions and market changes and make prompt strategic adjustment recommendations to the Board; (3) evaluate the overall development of our businesses and make prompt adjustments to strategic recommendations to the Board; (4) review our annual financial budget and final accounts plans, and make recommendations to the Board; (5) review the following matters relating to external investments which requires Board approval: 1. external investment management policies; 2. external investment management plans; 3. decision-making procedures and authorization mechanisms for external investments; 4. strategic asset investment allocation plans, annual investment plans, investment guidelines and relevant adjustment plans; 5. significant direct investments; 6. strategy and operation plans for new investment categories; 7. procedures for evaluating and examining the performance of external investments; (6) explain external investment proposals at shareholders' general meetings and Board' meetings upon their request; (7) formulate and revise policies related to our corporate governance, and make recommendations to the Board; (8) supervise the Directors and senior management's training and continuing professional development; (9) develop, amend and regulate the internal code of conduct for our staff and Directors; (10) supervise our disclosure on corporate governance in compliance with the relevant regulatory authorities of the stock exchange on which the company's shares are listed; and (11) perform other duties as required by applicable laws, regulations, other regulatory documents, the Articles of Association, the relevant requirements of the securities regulatory authority at the places where our Company's shares are listed, or other matters as authorized by the Board.

Summary of Work Undertaken

During the year, the strategy and investment committee held six meetings, of which 27 proposals were reviewed and considered. Attendance of the members were as follows:

Name	WU Yan	Ding Yunzhou	XIANG Huaicheng	CAO Guangsheng	ZHANG Hanlin
Attendance in person/scheduled attendance	6/6	4/4	4/6	6/6	2/2
Percentage of attendance in person	100%	100%	67%	100%	100%
Attendance by proxy/scheduled attendance	0/6	0/4	2/6	0/6	0/2
Percentage of attendance by proxy	0%	0%	33%	0%	0%

Notes:

1. Mr. DING Yunzhou resigned as an executive director on 6 November 2012 and ceased to be a member of the strategy and investment committee on the same date.

2. The resolution with respect to Election of Members of the First Session of the Strategy and Investment Committee was considered and approved at the fifth meeting of the first session of the Board on 14 June 2012, and Ms. ZHANG Hanlin began to duly perform her duties and responsibilities as a member of the strategy and investment committee on the same date.

BOARD COMMITTEES *(continued)*

Strategy and Investment Committee *(continued)*

Summary of Work Undertaken (continued)

During the reporting period, the main tasks accomplished by the strategy and investment committee included:

- Reviewed and considered relevant matters concerning the participation in shareholdings in Industrial Bank by way of non-public targeted placement by the Company;

- Reviewed and considered the operation plan and financial budget of the Company for the year 2012;

- Considered and reviewed the Corporate Governance Report of the Company for the year 2011;

- Reviewed and considered various rules and regulations such as *Terms of References (Interim) of Independent Directors, Management Measures for Connected Transactions, Interim Measures for Management of Matters Concerning Information Disclosure, Interim Measures for Investor Relations Management, Interim Management Measures for undsRaised, Interim Measures for External Investment Management, Interim Measures for Shareholding and their Changes of Shares of Directors, Supervisors and Senior Management, Interim Measures for Normalization and Management Capital Operation with Related Parties, Working Regulations of Annual Report (Interim)of Independent Reports, Working Regulations of Annual Report (Interim) of Audit Committee of the Board, Interim Accountability System for Major Errors in Information Disclosure in Annual Reports, Interim Management Measures and Registration Procedures Relating to Persons in Possession of Inside Information, Interim Management Measures for Internal Reporting of Material Information and Working Rules for Secretary of Board (Interim)*;

- Examined and reviewed relevant matters in respect of the Company's plan of IPO and global offering of H shares;

- Reviewed and considered final account report of the Company for the year 2011;

- Considered the amendment to the Articles of Association;

- Reviewed and considered relevant matters concerning issuance of subordinated fixed term debts of the Company.

Risk Management Committee

As at the end of the reporting period, the risk management committee of the Company comprised of five directors including two executive directors, two non-executive directors and one independent non-executive director, and the independent non-executive director served as the chairman.

Composition

Chairman:	CAI Weiguo (independent non-executive director)
Members:	WANG Yincheng (executive director), LI Liangwen (executive director), LIU Yeqiao (non-executive director), QI Shaojun (non-executive director)

BOARD COMMITTEES *(continued)*

Risk Management Committee *(continued)*

Duties and Responsibilities

The risk management committee is mainly responsible for having a comprehensive understanding of all major risks faced by the Company and its respective management status, supervising the operational effectiveness of the risk management system.

The primary duties of the risk management committee include, but are not limited to, the following: (1) be responsible for our risk management, have a full understanding of various significant risks and the respective management status, supervise the operational effectiveness of our risk management controls; (2) review our overall goals, fundamental policies and terms of references for risk management, and make suggestions and recommendations to the Board; (3) review and approve our risk management organization and corresponding responsibilities, and make suggestions and recommendations to the Board; (4) review significant risk evaluations and solutions on material decisions, and make suggestions and recommendations to the Board; (5) review our annual risk evaluation report and make suggestions and recommendations to the Board; (6) review and submit our annual compliance report to the Board; (7) review and assess our interim compliance report; (8) consider suggestions made in relevant compliance reports and make recommendations to the Board; (9) formulate and amend the internal compliance code applicable to the company's staff and directors, assess and supervise our compliance policies and status, and make recommendations to the Board; and (10) perform other duties as required by applicable laws, regulations, other regulatory documents and the Articles of Association, the relevant requirements of the securities regulatory authority at the place where our Company's shares are listed, or other matters as authorized by the Board.

Summary of Work Undertaken

During the year, the risk management committee held two meetings, at which three proposals were studied and reviewed. Attendance of the members is given as follows:

Name	CAI Weiguo	WANG Yincheng	LI Liangwen	LIU Yeqiao	QI Shaojun
Attendance in person/scheduled attendance	2/2	2/2	1/2	2/2	2/2
Percentage of attendance in person	100%	100%	50%	100%	100%
Attendance by proxy/scheduled attendance	0/2	0/2	1/2	0/2	0/2
Percentage of attendance by proxy	0%	0%	50%	0%	0%

During the reporting period, the main tasks completed by the risk management committee included:

- Reviewed and considered submitting to the general meeting to authorize the Board to deal with liability insurances and prospectus liability insurances for the directors, supervisors and senior executives of the Company;
- Reviewed and considered the Compliance Report of the Company for the year 2011;
- Reviewed and considered the Risk Evaluation Report of the Company for the year 2011.

INTERNAL CONTROL

The Company believes that good internal control plays an important role in the operation of the Company. The Board actively engages in the establishment of effective internal control systems, as well as the implementation and supervision of internal control. The Board is ultimately responsible for the internal control, and compliance policy formulation and risk management of the Company. It makes decisions on internal control, risk management and compliance policies, and approves the annual internal control evaluation report, risk evaluation report and compliance report. An audit committee has been established under the Board to be responsible for the supervision and evaluation of all kinds of matters including risk management and internal control compliance; a risk management committee has been established to be responsible for having a comprehensive understanding of significant risks faced by the Company and relevant risk management, as well as supervising the effectiveness of the operation of risk management system. The Company has established a risk and compliance committee as a comprehensive coordination organization under the senior management, which is responsible for guiding, coordinating and supervising the development of risk management, internal control and compliance by the Company and all our subsidiaries.

The business, finance, investment and other functional departments or operating units of the Company and all our subsidiaries assume primary responsibilities in their respective internal control systems; specialized organizations or departments such as the risk management department and the internal control and compliance department are responsible for planning risk management policies beforehand or at present when a situation arises and organizing its implementation, internal control and compliance; internal audit organizations or departments are responsible for supervising and carrying out periodically auditing in relation to the effectiveness of risk management, internal control and compliance, and investigating the accountability for any violation of requirements.

The Company has, pursuant to the requirements of internal control standards such as the Basic Guidelines for Internal Controls of Enterprises (CK (2008) No. 7) issued by the MOF, CSRC State Auditing Administration, China Banking Regulatory Commission and CIRC and its supporting guidance, the Principal Rules for the Internal Control of Insurance Companies (BJF (2010) No. 69) issued by CIRC, engaged internationally well-known consulting agencies to assist in perfecting the internal control system, formulating governing documents such as the *Internal Control Manual* and the *Internal Control Evaluation Manual*, and guiding major subsidiaries to promote the construction of internal control systems in accordance with the foregoing supervisory regulations. In 2012, the Company carried out two comprehensive self-assessments of internal control covering the entire Group and engaged certified accounting firms to perform internal control audits and due diligence for internal control of H shares, and established a mechanism for internal self-assessment and audit control. Through the correction of defects in internal control, the Company and its subsidiaries has further optimized the internal control procedures and perfected internal control measures.

In 2012, the Company considered making use of information technology skills in conducting risk management as the focus of recent risk control work of the Group. It developed an overall plan and carried them out step-by-step. The Company has already established an "internal control management system" and completed the major developments on the "risk index monitoring and pre-working system". These two systems, after their operation, will assist the Group in enhancing the capabilities and level of risk control and management through application of information technology.

The Board and the audit committee received and discussed the Internal Control Evaluation Report for the year 2012 of the Company, and the Board and the risk management committee received and discussed the Risk Evaluation Report and Compliance Report of the Company for the year 2012 so as to ensure the continuous improvement and the effectiveness of the internal control system.

BOARD OF SUPERVISORS

During the year, the Board of Supervisors has adhered to laws and performed its duties of supervision, enhanced the supervision over material events of the Company, the due diligence work of directors and senior management, focused on carrying out special investigations and making proposals with respect to the implementation of more thorough strategies and the prevention of operating risks to the Board and the management.

Composition

The Board of Supervisors is composed of three supervisors, including one representative of the employees (See Directors, Supervisors, Senior Management and Employees in this annual report for the profiles of current Supervisors). The number of members of the Board of Supervisors and its composition complied with the regulatory requirements and the provisions of the Articles of Association.

During the year, the changes of members of the Board of Supervisors were as follows:

On 20 March 2012, Mr. LIN Fan was appointed as a candidate of Supervisor by the Board of Supervisors of the Company and Mr. ZHOU Shurui resigned as a supervisor and the chairman of the Board of Supervisors on the same day. On 17 April, Mr. LIN Fan was appointed as a Supervisor in the extraordinary shareholders' general meeting of the Company. On 23 April, the Board of Supervisors elected Mr. LIN Fan as the Head of Supervisors (Chairman of the Board of Supervisors).

Duties and Responsibilities

The Board of Supervisors shall report to the shareholders' general meeting. The primary duties of the Board of Supervisors include the following: (1) report its work in the shareholders' general meeting; (2) examine the Company's financial conditions; (3) supervise the conduct of the Directors and senior management officers in their performance of duties and propose the removal of Directors and senior management officers who have contravened any law, regulation, the Articles of Association or resolutions of the shareholders'general meeting; (4) demand rectification from a Director or any senior management officer when the acts of such persons are harmful to the Company's interest; (5) propose convening a shareholders' general meeting and to convene and preside over the shareholders 'general meeting when the Board fails to perform its duty of convening and presiding over the shareholders' general meeting; (6) propose resolutions at the shareholders' general meeting; (7) bring an action against a Director or senior management officer pursuant to the Company Law; (8) hold investigations when uncovering the Company's abnormal opeartions, and hire accounting firms, law firms or other professional organizations to assist if necessary, with the relevant expenses to be paid by the Company; and (9) exercise other powers specified under laws, regulations, regulatory documents, the Articles of Association of Assoication and as granted by a shareholders' general meeting.

BOARD OF SUPERVISORS *(continued)*

Summary of the Work Undertaken

During the year, the Board of Supervisors, pursuant to the relevant provisions of the Company Law and the Articles of Association, earnestly fulfilled its duties, and protected the interests of the Company, shareholders and employees. During the year, the Board of Supervisors convened seven meetings and considered and reviewed 18 resolutions. The attendance of meetings was as follows:

Name	Lin Fan	Zhou Shurui	Xu Yongxian	Yao Bo
Attendance in person/scheduled attendance	5/5	2/2	7/7	6/7
Percentage of attendance in person	100%	100%	100%	86%
Attendance by proxy/scheduled attendance	0/5	0/2	0/7	1/7
Percentage of attendance by proxy	0%	0%	0%	14%

See the section "Report of the Supervisors" for the work of the Board of Supervisors in the Year.

The Board presents its report and audited financial statements of the Company and its subsidiaries for the year ended 31 December 2012 (the "Year"). During the reporting period, there have been no significant changes to the scope of the Company's principal activities.

PRINCIPAL ACTIVITIES

The Company is a leading large-scale integrated insurance financial group in the PRC engaged in P&C insurance business, life and health insurance business and asset management business through its subsidiaries.

RESULTS AND PROFIT DISTRIBUTION

The results of the Group for the Year are set out on pages 87 to 215 of this annual report.

The net profit of the Company for the year 2012 as presented in the audited financial statements prepared under the International Financial Reporting Standards accounted to RMB1.813 billion. Pursuant to the Articles of Association and other relevant provisions, after appropriation of 10%, or RMB181 million of the net profit in the financial statements as statutory reserve, the distributable profit realized for the Year was RMB1.632 billion. The Board has recommended the distribution of dividend based on 10% of RMB1.632 billion, i.e., a payment of cash dividend of RMB0.038 per 10 shares (inclusive of tax), calculated on the basis of a total share capital of 42.424 billion shares, amounting to a total of approximately RMB163 million, subject to the approval of shareholders at the annual general meeting to be held on 21 June 2013 (Friday). If approved, the final dividend is expected to be paid on 16 August 2013 (Friday) to the holders of H shares whose names appear on the H share register of members of the Company on 2 July 2013 (Tuesday).

Pursuant to the PRC Individual Income Tax Law (《中華人民共和國個人所得稅法》), the Implementation Regulations of the PRC Individual Income Tax Law (《中華人民共和國個人所得稅法實施條例》), the Notice of the State Administration of Taxation in relation to the Administrative Measures on Preferential Treatment Entitled by Non-residents under Tax Treaties (Tentative) (Guo Shui Fa [2009] No. 124) (《國家稅務總局關於印發<非居民享受稅收協定待遇管理辦法(試行)>的通知》(國稅發[2009]124號)), the Notice of the State Administration of Taxation on the Questions Concerning the Levy and Administration of Individual Income Tax After the Repeal of Guo Shui Fa [1993] No. 45 (Guo Shui Han [2011] No. 348)(《國家稅務總局關於國稅發[1993]045號文件廢止後有關個人所得稅徵管問題的通知》(國稅函[2011]348號)), other relevant laws and regulations and other regulatory documents, the Company shall, as a withholding agent, withhold and pay individual income tax for the individual holders of H shares in respect of the final dividend for the year 2012 to be distributed to them. However, the individual holders of H shares may be entitled to certain tax preferential treatments pursuant to the tax treaties between the PRC and the countries (regions) in which the individual holders of H shares are domiciled and the tax arrangements between Mainland China, Hong Kong or Macau. In this regard, the Company will implement the following arrangements in relation to the withholding and payment of dividend as individual income tax for the individual holders of H shares:

- For individual holders of H shares who are Hong Kong or Macau residents or whose country (region) of domicile is a country (region) which has entered into a tax treaty with the PRC stipulating a tax rate of 10%, the Company will withhold and pay individual income tax at the rate of 10% on behalf of the individual holders of H shares in the distribution of the dividend.

- For individual holders of H shares whose country (region) of domicile is a country (region) which has entered into a tax treaty with the PRC stipulating a tax rate of less than 10%, the Company will temporarily withhold and pay individual income tax at the rate of 10% on behalf of the individual holders of H shares in the distribution of the dividend.

RESULTS AND PROFIT DISTRIBUTION *(continued)*

- For individual holders of H shares whose country (region) of domicile is a country (region) which has entered into a tax treaty with the PRC stipulating a tax rate of more than 10% but less than 20%, the Company will withhold and pay individual income tax at the effective tax rate stipulated in the relevant tax treaty in the distribution of the dividend.

- For individual holders of H shares whose country (region) of domicile is a country (region) which has entered into a tax treaty with the PRC stipulating a tax rate of 20%, or a country (region) which has not entered into any tax treaties with the PRC, or under any other circumstances, the Company will withhold and pay individual income tax at the rate of 20% on behalf of the individual holders of H shares in the distribution of the dividend.

If individual holders of H shares consider that the tax rate adopted by the Company for the withholding and payment of individual income tax on their behalf is not the same as the tax rate stipulated in any tax treaties between the PRC and the countries (regions) in which they are domiciled, please submit to the H share registrar of the Company, Computershare Hong Kong Investor Services Limited, on or before 27 June 2013 (Thursday), a letter of entrustment and all application and relevant proving materials showing that they are residents of a country (region) which has entered into a tax treaty with the PRC. The Company will then submit the above documents to competent tax authorities which will proceed with the subsequent tax related treatments. If individual holders of H shares do not provide the Company with the relevant proving materials before the aforesaid deadline, they could go through the relevant procedures on their own or by attorney in accordance with the relevant provisions stipulated in the tax treaties. The Company assumes no responsibility and disclaims all liabilities whatsoever in relation to the tax status or tax treatment of the individual holders of H shares and for any claims arising from any delay in or inaccurate determination of the tax status or tax treatment of the individual holders of H shares or any disputes over the withholding mechanism or arrangements.

For non-resident enterprise holders of H shares, the Company will withhold and pay enterprise income tax at the tax rate of 10% for such holders of H shares pursuant to the Notice of the State Administration of Taxation on the Issues Concerning Withholding the Enterprises Income Tax on the Dividends Paid by Chinese Resident Enterprises to H Share Holders Who Are Overseas Non-resident Enterprises (Guo Shui Han [2008] No.897) (《國家稅務總局關於中國居民企業向境外H股非居民企業股東派發股息代扣代繳企業所得稅有關問題的通知》(國稅函[2008]897號)).

Should the holders of H shares of the Company have any doubt in relation to the aforesaid arrangements, they are recommended to consult their tax advisors for relevant tax impact in Mainland China, Hong Kong and other countries (regions) on the possession and disposal of the H shares of the Company.

FINANCIAL HIGHLIGHTS

A summary of the results, assets and liabilities of the Group for the past years to the end of the reporting period is set out in the section "Financial Highlights" of this annual report.

BUILDINGS AND EQUIPMENT AND INVESTMENT PROPERTIES

Changes in the property and equipment and investment properties of the Group during the Year are set out in Note 27 and Note 26 to the consolidated financial statements respectively.

SHARE CAPITAL

Details of movements in the share capital of the Company during the Year are as follows:

The Company carried out a global offering in year 2012 with H-share over-allotment options fully exercised. A total of 7,932,940,000 H shares were issued with proceeds of 27,607 million HK dollars from the offering. The share capital of the Company on 31 December 2012 was as follows:

Name of Shareholder	Class	Number of Shares	Percentage of registered capital
MOF	Domestic Shares	29,896,189,564	70.47%
NSSF	Domestic Shares	3,801,567,019	8.96%
	H Shares	793,294,000	1.87%
Other H-share shareholders	H shares	7,932,940,000	18.70%
Total		42,423,990,583	100.00%

PRE-EMPTIVE RIGHTS

During the reporting period, pursuant to relevant laws of the PRC and the Articles of Association, the shareholders of the Company had no pre-emptive rights, and the Company did not have any share option arrangement.

REPURCHASE, DISPOSAL AND REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the reporting period, the Company and its subsidiaries did not acquire, dispose of or redeemed any listed securities of the Company.

RESERVES

Details of reserves of the Group are set out in Note 40 to the consolidated financial statements, and the consolidated statement of changes in equity.

DISTRIBUTABLE RESERVES

As of 31 December 2012, the distributable reserves of the Company amounted to RMB3.244 billion.

BANK BORROWINGS

Besides the subordinated debts issued by the Group and the repurchase business disposed in the investment business, the bank borrowings of the Group were RMB362 million. Details of the subordinated debts are set out in Note 34 to the consolidated financial statements, and details of the bank borrowings are set out in Note 33 to the consolidated financial statements.

CHARITABLE AND OTHER DONATIONS

Charitable and other donations made by the Company and its subsidiaries in 2012 were RMB46.14 million, of which the donations made by the Company were RMB10 million.

MAJOR CUSTOMERS

During the reporting period, the Company had no individual customer with premium income exceeding 30% of the annual premium income of the Company. Premium income from the top five customers accounted for not more than 1% of the total premium income of the Company and its subsidiaries.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The profiles of the directors, supervisors and senior management of the Company are set out in the "Directors, Supervisors, Senior Management and Employees" section. Details of day-to-day work of the Board are set out in the "Corporate Governance Report" section.

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS AND REMUNERATIONS

During the reporting period, none of the directors and supervisors of the Company entered into any service contracts with the Company or its subsidiaries which could not be terminated within one year or without payment of compensation other than statutory compensation.

Details of the remuneration of the directors and supervisors of the Company are set out in Note 12 to the consolidated financial statements.

HIGHEST PAID INDIVIDUALS

Details of the remuneration of the five highest paid individuals of the Company during the reporting period are set out in Note 13 to the consolidated financial statements.

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

During the reporting period, none of the directors or supervisors of the Company had any material interest, whether directly or indirectly, in significant contracts of the Company and its subsidiaries signed with external parties.

MANAGEMENT CONTRACTS

During the reporting period, the Company did not sign any management contracts with respect to the entire or primary business of the Company.

SIGNIFICANT CONTRACTS WITH CONTROLLING SHAREHOLDERS

During the reporting period, the Company and its subsidiaries did not sign any contracts with the controlling shareholders.

INTERESTS IN SHARES HELD BY DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

As at 31 December 2012, none of the Directors, Supervisors and senior management had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange of Hong Kong Limited.

INTERESTS OF DIRECTORS AND SUPERVISORS IN COMPETING BUSINESS

During the reporting period, the directors and supervisors of the Company had no direct or indirect interests in businesses that might compete, either directly or indirectly, with the business of the Company.

INTERESTS AND SHORT POSITIONS REQUIRED TO BE DISCLOSED BY SHAREHOLDERS UNDER THE SFO

As at 31 December 2012, the following shareholders had interests or short positions in the shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO:

Name of shareholder	Capacity	Number of domestic shares	Nature of interests	Percentage of total issued domestic shares	Percentage of total issued shares
MOF	Beneficial owner	29,896,189,564	Long position	88.72%	70.47%
NSSF	Beneficial owner	3,801,567,019	Long position	11.28%	8.96%

INTERESTS AND SHORT POSITIONS REQUIRED TO BE DISCLOSED BY SHAREHOLDERS UNDER THE SFO *(continued)*

Name of shareholder	Capacity	Number of H shares	Nature of interests	Percentage of total issued H shares	Percentage of total issued shares
American International Group, Inc. ("AIG") *(Note 1)*	Interest of controlled corporation	1,113,405,000	Long position	12.76%	2.62%
SAFG Retirement Services, Inc. *(Note 1)*	Interest of controlled corporation	1,113,405,000	Long position	12.76%	2.62%
SunAmerica Financial Group, Inc. *(Note 1)*	Interest of controlled corporation	1,113,405,000	Long position	12.76%	2.62%
AGC Life Insurance Company *(Note 1)*	Interest of controlled corporation	1,113,405,000	Long position	12.76%	2.62%
American General Life Insurance Company *(Note 1)*	Beneficial owner	1,113,405,000	Long position	12.76%	2.62%
NSSF	Beneficial owner	793,294,000	Long position	9.09%	1.87%
State Grid Corporation of China *(Note 2)*	Interest of controlled corporation	668,043,000	Long position	7.66%	1.57%
State Grid Yingda International Holdings Group Limited *(Note 2)*	Beneficial owner	668,043,000	Long position	7.66%	1.57%
GF Securities Co., Ltd. *(Note 2)*	Asset Manager, nominee	668,043,000	Long position	7.66%	1.57%

Notes:

1. The interests of AIG above represent the latest notice of interest disclosure made by AIG under the SFO. SAFG Retirement Services, Inc. is 100% controlled by AIG. SunAmerica Financial Group,Inc. is 100% controlled by SAFG Retirement Services,Inc. AGC Life Insurance Company is 100% controlled by SunAmerica Financial Group, Inc. American General Life Insurance Company is 100% controlled by AGC Life Insurance Company. Accordingly, AIG is deemed to be interested in 1,113,405,000 H shares directly owned by American General Life Insurance Company.

2. State Grid Yingda International Holdings Group Limited, as the beneficial owner, holds 668,043,000 shares and holds such shares via GF Securities Co., Ltd. as the qualified domestic institutional investor, asset manager and its nominees. State Grid Yingda International Holdings Group Limited is 100% controlled by State Grid Corporation of China. Accordingly, State Grid Corporation of China is deemed to be interested in 668,043,000 H shares owned by State Grid Yingda International Holdings Group Limited.

Save as disclosed above, as at 31 December 2012, the Company is not aware of any other persons having any interest or short positions in the shares or underlying shares of the Company, that has required to be entered into the register under Section 336 of the SFO.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and to the knowledge of the Directors as the latest practicable date prior to the publication of this annual report, since 18 April 2013, 18.77% of the issued share capital of Company was held by the public, which complied with the relevant exemption requirements of the Stock Exchange of Hong Kong Limited. The Company applied to the Stock Exchange of Hong Kong Limited at the time of the global offering, and the Hong Kong Exchange exercised its discretion under rule 8.08(1) of the Listing Rules and confirmed that the minimum percentage of our H shares held by the public from time to time shall not be less than 16.28% of the enlarged share capital immediately upon the completion of the global offering. H shares held by NSSF and Tokyo Marine & Nichido Fire Insurance Co., Ltd. were not deemed as the shares held by the public for the purposes of Listing Rule 8.08(1).

CONNECTED TRANSACTIONS

During the reporting period, the Company had no connected transactions required to be disclosed pursuant to Rule 14A of the Listing Rules. Please refer to Note 45 to the consolidated financial statements "Related Party Disclosures" for particulars on the related party transactions defined under the laws, regulations and accounting standards in the PRC; such transactions are not continuing connected transactions defined under Chapter 14A of Listing Rules.

CORPORATE GOVERNANCE

Details of the corporate governance of the Company are set out in the section "Corporate Governance Report" of this annual report.

AUDIT COMMITTEE

The audit committee has reviewed the audited financial statements for the Year. The composition, roles and the summary of work undertaken by the audit committee are set out in the section "Corporate Governance Report" of this annual report.

AUDITORS

As reviewed and approved by the first extraordinary shareholders' meeting in year 2013, the Company engaged Ernst & Young Hua Ming LLP as the domestic auditors of the Company and Ernst & Young as the international auditors of the Company (hereinafter refer to "Ernst & Young") for the financial statements for the year ended 31 December 2012, prepared in accordance with the PRC Accounting Standards for Business Enterprises and the International Financial Reporting Standards. In the past three years, Ernst & Young has consecutively served as the auditors of the financial statements of the Company.

By the order of the Board
Chairman
WU Yan

Report of the Board of Supervisors

For this year, all members of the Board of Supervisors of the Company have, in accordance with relevant provisions of Company Law and the Articles of Association, complied with the principle of good faith, earnestly fulfilled duties of supervision and effectively safeguarded the interests of the shareholders, the Company and the employees.

PERFORMANCE OF THE BOARD OF SUPERVISORS

Organizing and convening supervisors' meetings in accordance with the law and performing supervisory functions

During the year, the Board of Supervisors convened seven meetings and considered and reviewed 18 resolutions.

1. On 10 February 2012, the Board of Supervisors convened the first meeting (an interim meeting) to consider and discuss the Resolution on Investment in Industrial Bank by Non-public Directional Seasoned Offering.

2. On 30 March 2012, the Board of Supervisors convened the second meeting (an interim meeting) to consider and approve the Resolution on Nominating Lin Fan as the Candidate for the First Board of Supervisors of the Company.

3. On 23 April 2012, the Board of Supervisors convened the third meeting (an interim meeting) to consider and approve the Resolution on Election of the Chief Supervisor (Chairman of the Board of Supervisors) of the first Board of Supervisors and to consider and discuss several opinions on the works of the Board of Supervisors.

4. On 14 May 2012, the Board of Supervisors convened the forth meeting (a regular meeting) to consider and approve seven resolutions including the 2011 Work Report of the Board of Supervisors, the 2012 Work Plan of the Board of Supervisors, Rules of Procedures of Supervisors' Meeting (Revision), the 2011 Annual Financial Settlement Report of the Company, Financial Statements of the Company for the years ended 31 December 2009, 2010 and 2011, the Distribution Plan of Accumulated Profits before Public Offering, and the 2011 Internal Control Evaluation Report of the Company.

5. On 6 June 2012, the Board of Supervisors convened the fifth meeting (an interim meeting) to consider and approve the 2011 Compliance Report of the Company, 2011 Risk Evaluation Report of the Company and to receive the Report on Results of Special Audit to Connected Transactions of the Company in 2011.

6. On 28 August 2012, the Board of Supervisors convened the sixth meeting (a regular meeting) to consider and approve the Resolution of (Audited) Financial Statements of the Company for the years ended 31 December 2009, 2010 and 2011, for the six months ended 30 June 2012 and the (Reviewed) Financial Statements for the six months ended 30 June 2011, and received the report of Work Summary of Internal Audit for the First Half of 2012 in the Company.

7. From 20 to 21 November 2012, the Board of Supervisors convened the seventh meeting (an interim meeting) by means of written resolutions signed by all members to consider and approve the Resolution on Issuance of Subordinated Fixed Term Debts.

A multi-faceted approach to supervision

In addition to supervisors' meeting, the Board of Supervisors also adopts various methods in order to effectively supervise the decision-making procedures and the duty performance of the Board and the management involved in operations, and has an important role in corporate governance. In the year, the supervisors attended one shareholders'general meeting, seven directors' meeting, and 17 meetings of Board committees, and participated in the resolution communication meetings 22 times. Meanwhile, the Board of Supervisors focused on the supervision of significant projects, material investments and financial transactions, followed up promptly on the progress of operations and management, and proposed relevant opinions and suggestions.

Conducting detailed investigations as well as practical supervision

In this year, the Board of Supervisors' aim was to maximize the Company's overall benefits. Beginning with the concept of "effectively avoiding risks and promoting healthy development," it organized and carried out several special investigations. It visited and investigated eight subsidiaries, such as PICC P&C, observing the business and the operation on site, and held panel discussions with relevant functional departments of the Company. The Board of Supervisors focused on issues such as the strategies of subsidiaries, development concepts of operation, targets, guarantee measures and practical difficulties, and formulated special investigation reports and offered opinions and suggestions.

Financial supervison with a focus on key points

In this year, the Board of Supervisors deliberated on resolutions such as the annual financial statements of the Company and the auditors' report, and paid special attention to significant finance income and expenses, accounting matters that might greatly affect the operating results and transactions that might greatly affect owners' equity, dutifully performing the duties of financial supervision.

Enhancing risk management and internal controls while promoting the compliance with the law

In this year, the Board of Supervisors urged the Company to enhance internal control management after deliberating over internal control reports, compliance reports, risk reports and panel discussions with the Company's internal control and compliance departments. It recommended the constrction of a stricter and more standardized compliance system infrastructure as well as an enhanced awareness of legal compliance in operations.

Reinforcing systems capabilities in order to improve supervision standards

In this year, the Board of Supervisors continuously advanced the enhancement of its systems and capabilities, and strengthened as well as improved its performance levels.

INDEPENDENT OPINIONS DELIVERED BY THE BOARD OF SUPERVISORS WITH RESPECT TO RELEVANT MATTERS

Operation of the Company in accordance with law

The Board of Supervisors believes that during the reporting period, the Company operated in accordance with the law, the operating activities of the Company complied with the provisions of the Company Law and the Articles of Association, the corporate governance structure was further improved, the decision making procedures of the Board and the management involved in operations were legal and effective, the directors and senior management were loyal, diligent and faithful in the course of business operation and management and no behavior was found to be in violation of laws or regulations or to damage the interests of the shareholders or the Company.

Facts about the financial statements

The annual financial statements of the Company are a true and objective presentation of the financial position and operating results of the Company. The financial statements of the Company for the year 2012 have been audited by Ernst & Young and Ernst & Young Hua Ming LLP respectively in accordance with corresponding independent auditing standards.

Acquisition and disposal of assets

With respect to material investments and disposals of assets during the reporting period, the Board of Supervisors is not aware of any insider transactions or actions that damaged the interests of the shareholders or led to a loss of the Company's assets.

Connected transactions

During the reporting period, the connected transactions of the Company were fair and reasonable and no damages to the interests of the shareholders or the benefits of the Company were found.

Review of the internal control report

During the reporting period, the management of the Company attached great importance to the construction of an internal control system. The Company established a complete, reasonable and effective internal control system, and the management of internal control was further improved. The Board of Supervisors examined the Company's 2011 Internal Control Evaluation Report and the Internal Control Evaluation Report for the first half of 2012 and had no objection.

Implementation of resolutions adopted at the shareholders' meetings

The members of the Board of Supervisors attended the shareholders' meetings and the directors' meetings, and had no objection to the contents of resolutions submitted to the shareholders' meetings. The Board of Supervisors supervised the implementation of resolutions adopted at the shareholders' meetings, and considered that the Board was able to implement the relevant resolutions earnestly.

By the order of the Board of Supervisors
Chairman
LIN Fan

In 2012, abiding by the mission and responsibility of "People's Insurance serves the People" and adhering to the idea of integrating the Group's development with the overall economic and social development of China, the Group has actively promoted the exploration and advancement of insurance functions and mechanisms, made efforts to promote the development of a product and service system centered around customers, and focused on employees' develpment with a strong humanistic approach, so as to effectively achieve joint growth in the returns to the society, shareholders, customers and employees.

The Group continued to expand insurance services for agriculture, rural areas and farmers. By (1) continuing to levergage the Group's predominant role in implementing the national policies relating to agriculture, rural areas and farmers and in achieving the amplifying effect of fiscal investment, (2) vigorously expanding the service range of policy-oriented agricultural insurance, forest insurance and rural housing insurance, and (3) constructing an integrated sales and service platform rooted in rural areas and service to agriculture, farmers and rural areas, the Group has not only augmented the effect of fiscal investment on strenghthening agriculture and benefiting the farmers, activated the rural financial service chain, improved the reproduction ability of agriculture, rural areas and farmers, but also rapidly developed the insurance business in rural areas. In 2012, the Group's agricultural insurance business kept growing rapidly and we therefore became Asia's largest agricultural insurance provider. The Group has underwritten insurance policies for a total of 130 million household-time, undertaking an agricultural risk liability of RMB472.5 billion; insured 67.16 million rural households, undertaking a risk liability of RMB631.9 billion; and insured forest area of 520 million hectares.

The Group was deeply involved in the establishment of a social security system. The Group is committed to bringing into play the market-orientation and flexibility of its insurance mechanism and to constantly innovating its ways and means in supporting the establishment of a medical insurance system, so as to play a leading role in supporting the establishment of a social security system and in promoting the equalization of public services between urban and rural areas. In 2012, through promoting and replicating the "Zhanjiang Model," the Group (1) underwrote 445 government-commissioned projects and generated TWPs of RMB3.92 billion, with a year-on-year growth of 44.6%; (2) served the public for 83.51 million person-time; and (3) pioneered the service model of supplementary medical insurance for critical illness in Taicang, Jiangsu Province, which became a practical blueprint for China's policy on critical illness insurance with extensive social impact. "Zhanjiang Model" and "Taicang Experience," as typical samples for the establishment of China's medical insurance system, were selected as one of "China's Top Ten Insurance News of 2012" jointly by *Financial News*, Insurance Association of China and Insurance Institute of China.

The Group was committed to social management innovation. The Group (1) gave full play of liability insurance in resolving social conflicts and disputes and in promoting the positive effect of liability insurance on social management model innovation; (2) accelerated the development of liability insurance types such as environmental pollution, special equipment, school safety and production safety; and (3) reduced incidents of social conflicts and friction. In Shanxi, the Group has become the only designated underwriting unit for an environmental pollution liability insurance pilot program. In Tibet, the Group has exclusively undertaken the liability insurances of all secondary vocational schools, advanced vocational schools in the entire autonomous region, as well as all Tibetan vocational internship programs throughout the rest of China. In Guangxi, the Group has won the bidding for the school liability insurance designated service procurement project for all full-time regular primary and secondary schools in the entire autonomous region. The Group has generated annual liability insurance premium income of RMB7.41 billion with a year-on-year growth of 14.4%. It has also served hundreds of millions of person-time and undertook risk security liability of RMB17 trillion.

The Group strived to safeguard economic stability. The Group strived to provide effective insurance coverage and comprehensive risk management to the national economy, and to protect key national construction projects and the development of strategic emerging industries. In 2012, the Group launched the exclusive underwriting or chief underwriting of key major projects such as Apstar-7, the western section of the third line of the West-East Natural Gas Transmission Project for CNPC and Tianjin Metro Line 6. The Group vigorously developed products such as small loan protection insurance and credit insurance to provide important support for medium, small and micro enterprises, the weaklinks in economic development. During 2012, there are approximately 23,700 customers for the Group's credit guarantee insurance products. During the reporting period, the Group has assumed insurance liability of RMB99.4 trillion, ranking first in the insurance industry in China.

The Group continued to improve the quality of its customer service. PICC P&C has held PICC Customer Festival activities for four consecutive years and significantly improved its claim service quality. The claims settlement turnover for motor vehicle insurance claims below RMB10,000 decreased by 35% compared to 2011, the customer complaint rate for each RMB100 million of premiums of our P&C insurance and life and health insurance were lower than the average complaint rate in the industry and our main competitors, and the number of complaints for life insurance per RMB100 million of claim amount and per ten thousand institutions were far below the industry average. The Group continued to enhance its customer demand-oriented product system and to enable customers to receive diversified insurance and financial services. At the Seventh China Insurance Innovation Award held in 2012, the Group's products such as patent enforcement insurance, school bus operater liability insurance, and the family portfolio insurance "Happy E-family" won nine awards such as "The Most Innovative Insurance Product", "The Product with the Strongest Market Influence" and "The Best Product Combination".

The Group insisted on delivering public welfare forces. The Group extensively launched and supported social public welfare initiatives and charitable undertakings, used the theme of "Respecting Life is My Obligation" and organized the "PICC Security Comes to Campus" public welfare events to disseminate basic knowledge and skills about school security. The Group organized and carried out the "PICC – 2012 Astronomy and Space Camp for High School Students in Taiwan" campaign. The Group also actively carried out social charity projects, such as donation to support "Disaster Relief for Beijing July 21 Extraordinary Rainstorm," charitable activity of China Lifeline Express Foundation, and social management training of grass-roots party organizations in poor western regions.

The Group built a people-centered harmonious enterprise. The Group (1) actively practiced the corporate culture of "People-oriented and Strive Forward in Hormony," (2) continuously improved the training system and promoted the lowering of the level and emphasis of training and (3) organized over ten thousand training sessions for marketing personnel and workers. The Group cleared the channel for employee career development and established diversified career advancement paths based on management, occupations and skills. The Group's subsidiary PICC P&C won awards such as "Top 100 Employers of the Year 2012," "The Employer Most Watched by Job Seekers in 2012," and "Best 100 Human Resource Model Companies." The Group promoted the caring of its staff and the institutionalization of caring and helping the staff, and helped extremely poor workers and their families to ensure the warmth of PICC as a family is timely delivered to employees in need.

The Group will release its 2012 Social Responsibility Report describing in more detail the Group's fulfillment of its social responsibilities.

ACQUISITION AND DISPOSAL OF MAJOR ASSETS

Acquisition of major assets

On 31 December 2012, the Company and its subsidiaries completed their subscription of the non-public offering of 1.38 billion A-shares issued by Industrial Bank at the subscription price of RMB12.36 per share with total subscription amount of RMB17.062 billion. Upon completion of the transaction, the Company and its subsidiaries held approximately 10.9% equity interests in Industrial Bank, of which 0.94% equity interests were held by the Company, 4.98% held by PICC P&C and 4.98% held by PICC Life.

Disposal of major assets

1. A share transfer agreement dated 25 April 2012, and as amended on the same date, was entered into between PICC Investment and Beijing International Trust Co. Ltd (北京國際信託有限公司) in relation to the sale of a 55% equity interest in China Huawen Investment Holding Company Limited (中國華聞投資控股有限公司) by PICC Investment to Beijing International Trust Co. Ltd for a total consideration of RMB1,267,651,715.00.

2. A share transfer agreement dated 25 April 2012, and as amended on the same date, was entered into between PICC Investment and Beijing International Trust Co. Ltd (北京國際信託有限公司) in relation to the sale of a 54.21% equity interest in Guanglian (Nanning) Investment Holding Co. Ltd (廣聯(南寧)投資股份有限公司) by PICC Investment to Beijing International Trust Co. Ltd for a total consideration of RMB866,901,220.77.

MAJOR CONNECTED TRANSACTIONS

During the reporting period, the Company had not conducted any connected transactions or continuing connected transactions which need to comply with the reporting, announcement and independent shareholders' approval requirements as set out in Chapter 14A (Connected Transactions) of the Listing Rules.

MATERIAL CONTRACTS AND THEIR PERFORMANCES

During the reporting period, the Company did not engage in any custody, contracting and lease arrangement which required disclosure during the reporting period.

OTHER MATERIAL CONTRACTS

Unless otherwise disclosed in this annual report, during the reporting period, the Company had no other material contracts which required disclosure.

APPOINTMENT OF ACCOUNTING FIRMS

The appointment of the accounting firm by the Company and the remuneration paid to its auditors are set out in the section "Corporate Governance Report" in this annual report.

Our consolidated financial statements set forth in our annual report are prepared in accordance with IFRS. These financial statements measure our results of operations for a specific time period. An alternative method of measuring the value and profitability of a life or health insurance company is the embedded value method. Embedded value is an estimate of the economic value of the life and health insurance businesses of an insurance company that is determined based on a particular set of assumptions and a valuation model-based forecast of future distributable profits, excluding any value attributable to any future new business. While, under IFRS, there is a time lag between the sale of policies and the recognition of profits, embedded value recognizes the contribution of future profits from existing policies as of the date of the embedded value calculation. Since life and health insurance policies usually extend over more than one fiscal year, embedded value is a technique that attempts to quantify the total financial impact of these policies, including the impact in future fiscal years, in order to provide an alternative assessment of potential shareholder value.

To assess the total economic value of our life and health insurance businesses, a value of future sales of new life and health insurance businesses, which reflects our ability to produce new business, should be considered in addition to the embedded value. The value of future new business is often calculated by applying a multiplying factor to the value of one year's new business. The value of one year's new business is a measure of the economic value added by life and health insurance companies during the course of the year as a result of writing new business. Assumptions regarding, among others, the future new business growth, profit margin in the future, risk discount rate, and the number of years of new business are considered to derive the multiplying factor.

Deloitte, an independent firm of consulting actuaries, has prepared an actuarial consultants' report on the estimates of the embedded value of PICC Life and PICC Health, respectively, as of 31 December 2012, and the value of one year's new business of PICC Life and PICC Health, respectively, in respect of our new life and health insurance businesses written for the 12 months ended 31 December 2012, on a range of assumptions. A copy of Deloitte's report is included in our annual report. This report does not constitute an audit opinion of the financial information used in the report.

When preparing its actuarial consultants' report, Deloitte has relied on the data and information supplied by us, including unaudited and audited data and information as of or before 31 December 2012. Deloitte's report provides further information regarding its use of, and reliance on, the data and information supplied to it.

In Deloitte's report, the value of in-force business and the value of one year's new business in respect of our new life and health insurance businesses have been calculated using a valuation model under a range of assumptions. Given the particular uncertainties associated with the future investment environment and future business operations, you should carefully consider the range of values arising from the sensitivity analysis contained in Deloitte's report, which reflect the impact of different assumptions on these values. Moreover, the values presented in Deloitte's report do not necessarily include the full range of potential outcomes.

The estimates of value of in-force business and the value of one year's new business necessarily make numerous assumptions with respect to industry performance, business and economic conditions, investment returns, reserving standards, taxation, life expectancy and other matters, many of which are beyond our control. As a result, actual future experience may vary from that assumed in the calculation, and these variations may be material. Calculated values will vary, possibly materially, as key assumptions are varied. Moreover, as actual market value is determined by investors based on a variety of information available to them, these calculated values should not be construed as a direct reflection of actual market value. Furthermore, in the current environment of the PRC market, material uncertainty exists with respect to asset valuations, which may have material impact on the embedded value.

Consulting Actuary's Report for the year 2012 of The People's Insurance Company (Group) of China Limited

1. INTRODUCTION

The People's Insurance Company (Group) of China Limited ("PICC Group") has retained Deloitte Consulting (Shanghai) Limited Beijing Branch to prepare the consulting actuary's report on matters related to the life and health insurance businesses of its subsidiaries, PICC Life Insurance Company Limited ("PICC Life") and PICC Health Insurance Company Limited ("PICC Health"). The task is undertaken by Deloitte Actuarial and Insurance Solutions in Deloitte Consulting (Shanghai) Limited Beijing Branch ("Deloitte Actuarial" or "we"). We have conducted relevant calculation and analysis on the embedded value as of 31 December 2012, as well as the value of one year's new business for the 12 months prior to 31 December 2012, of PICC Life and PICC Health.

This report illustrated the work carried out and the results. The valuation approach and assumptions are also summarized in this report.

The results disclosed in this report are based on 100% shareholding of PICC Life and PICC health.

2. SCOPE OF WORK

Our scope of work is to prepare an embedded value report which covers:

- The embedded value of PICC Life and PICC Health as of 31 December 2012;
- The value of one year's new business for the 12 months prior to 31 December 2012 of PICC Life and PICC Health;
- The assumptions used in the value of in-force business and value of one year's new business of PICC Life and PICC Health, as well as the results of sensitivity tests under alternative assumptions;
- Movement analysis of the embedded value of PICC Life and PICC Health.

3. APPROACH AND DEFINITION

3.1 Definition

A number of specific terms are used in this report. They are defined as follows:

- Embedded Value ("EV"): this is the sum of the Adjusted Net Worth and Value of In-Force Business as at the valuation date;
- Adjusted Net Worth ("ANW"): this is the market value of the assets in excess of the assets supporting the policy reserve and other liabilities as at the valuation date attributable to shareholders. This is equal to the shareholder equity on accounting principle of enterprise basis plus reserve differences between accounting principle of enterprise basis and solvency basis, market value adjustments and tax adjustments;
- Value of In-Force Business ("VIF"): this is equal to the present value as at valuation date of future net of tax statutory profits from the business in force as at the valuation date, less the Cost of Capital associated with such business;

3. APPROACH AND DEFINITION *(continued)*

3.1 Definition *(continued)*

- Statutory Profits: this is the profit determined based on regulatory solvency reporting basis. The key difference between this profit and the profit reported under accounting principle of enterprise basis is that the policy reserve is determined based on China Insurance Regulatory Commission's ("CIRC") actuarial requirement instead of the accounting principle of enterprise basis;

- Cost of Capital ("CoC"): this is defined as the amount of capital required from shareholders at the valuation date less (1) the present value of future releases of such capital; and (2) the present values of the after-tax earnings on the assets backing such required capital. The level of total capital required depends on the Company's internal target of capital level and is subject to the minimum requirement specified by CIRC;

- Value of One Year's New Business ("V1NB"): this is equal to the present value as at the policy issue dates of the future net of tax statutory profits from the policies sold in one year prior to the valuation date less the Cost of Capital associated with such business. The value associated with top-up premium not expected from the in-force business is included in Value of One Year's New Business;

- Expense Overrun: the amount of actual expense in excess of the assumed expense.

3.2 Methodology

We carried out our work and prepared this report based on "Guidance on Life and Health Insurance Embedded Value Report Preparation" (Baojianfa [2005] No. 83) ("Guidance") issued by CIRC.

Both Value of In-Force Business and Value of One Year's New Business are calculated using the same deterministic discounted cash flow method.

The method of determining the Value of In-Force Business and Value of One Year's New Business has varying degree of evolution in different markets in the last decade. The method adopted in this report is a traditional embedded value approach. Such approach is commonly used in the Embedded Value and Value of One Year's New Business disclosed by insurance companies listed in mainland China and Hong Kong. This approach does not directly calculate the costs of options and guarantees provided to policyholders; instead, it implicitly allows for the time value of options and guarantees and the uncertainty in achieving the projected future profits by risk discount rate. Many companies in Europe have adopted approaches different from the traditional one to determine the Value of In-Force Business and Value of One Year's New Business. These new approaches directly measure the costs of options and guarantees, and use lower discount rates or even "risk-free rates" to discount future cash flows. Such approach has not been widely used in China. Such different approaches could lead to materially different results. Readers should understand such differences when comparing the results in this report against the results disclosed by other companies in other markets.

4. RESULT SUMMARY

This section summarizes the Embedded Value of PICC Life and PICC Health as at 31 December 2012, as well as the Value of One Year's New Business for the 12 months prior to 31 December 2012.

Table 4.1 Embedded Value as at 31 December 2012 (Unit: RMB Million)

Risk Discount Rate	**9.0%**	**10.0%**	**11.0%**
PICC Life			
Value of In-Force Business before CoC	17,694	16,739	15,901
Cost of Capital	(1,603)	(1,824)	(2,018)
Value of In-Force Business after CoC	16,091	14,915	13,882
Adjusted Net Worth	15,991	15,991	15,991
Embedded Value	**32,082**	**30,906**	**29,874**
PICC Health			
Value of In-Force Business before CoC	3,173	2,989	2,831
Cost of Capital	(207)	(228)	(244)
Value of In-Force Business after CoC	2,966	2,761	2,586
Adjusted Net Worth	1,807	1,807	1,807
Embedded Value	**4,773**	**4,569**	**4,393**

Note: Figures may not add up due to rounding.

Table 4.2 Value of One Year's New Business for the 12 months prior to 31 December 2012 (Unit: RMB Million)

Risk Discount Rate	**9.0%**	**10.0%**	**11.0%**
PICC Life			
Value of One Year's New Business before CoC	4,876	4,646	4,437
Cost of Capital	(533)	(615)	(688)
Value of One Year's New Business after CoC	**4,343**	**4,031**	**3,749**
PICC Health			
Value of One Year's New Business before CoC	808	780	753
Cost of Capital	(36)	(42)	(47)
Value of One Year's New Business after CoC	**772**	**738**	**706**

Note: Figures may not add up due to rounding.

When calculating the Value of In-Force Business and Value of One Year's New Business of PICC Life and PICC Health, the expense assumptions represent the expected long-term expense level inthe future. As the operating history of PICC Life and PICC Health is short, there is still expenditure in the development phase and the business scale has not reached the expected level. Hence the expenses incur in the near future will exceed the expected long-term expense level. The present value of future maintenance expense overrun has been deducted from the value of in-force business in accordance with the guidelines of CIRC. The actual expense overrun in reporting period has been reflected in Adjusted Net Worth.

5. ASSUMPTIONS

5.1 Risk Discount Rate

This report uses the risk discount rates of 9%, 10% and 11%.

The risk discount rates used in this report are the aggregate risk discount rates at the corporate level. The risk discount rates are intended to reflect many factors. Fundamentally **two most important elements need to be reflected in the risk discount rates:**

- The time value of money, which is usually based on risk-free rates; and

- The risk premium, which is the additional return required by investors to allow for the uncertainty in the invested business achieving the projected future returns. There can be different risk premium for different business lines due to the difference in product guarantees, coverage periods and degree of uncertainty in cash flows.

The investors' perception of risks and the level of risk premium required are very subjective and vary depending on individual circumstances. Hence we illustrate the values by using a range of discount rates. The range is not exhaustive in including all possible risk discount rates used by investors.

Generally, a lot of factors can affect the timing and amount of future returns. For example, changes in the capital market can affect the market value of investment assets and investment yields of new money; the degree of matching between assets and liabilities can affect the level of impact on expected future returns brought by the changes in capital market; policyholders' behaviour can affect the policy persistence; Actual mortality and morbidity experience may fluctuate or deviate from the assumptions; the actual sales expenses and management expenses may deviate from the assumptions due to changes in management practice and changes in the inflation rate of general expenses.

The Capital Asset Pricing Model ("CAPM") is used in this report to derive a reasonable range of risk discount rate. Based on the Guidance issued by CIRC, we use the ten-year government bond yield as the risk-free rate, which is 3.5765% as at the end of December 2012. For PICC Life and PICC Health, the average guaranteed interest rate for all the in-force business is less than 2.5% and the aggregate policy term is relatively short. Hence future uncertainty is relatively low, the risk of asset liability mismatch is relatively low, re-investment risk is relatively low. These factors have been duly considered when the range of the risk discount rate is selected for illustration. The risk premium corresponding to the risk discount rate of 9%, 10% and 11% are 5.4235%, 6.4235% and 7.4235% respectively.

5.2 Rate of Investment Return

The assumption of rate of investment return is set based on the target investment portfolio supporting the liabilities and the expected return of each asset class in the portfolio. In the derivation of investment return assumption of PICC Life and PICC Health, the investment returns on bonds, equities and mutual funds are based on market rate of investment return; the investment returns on deposits and infrastructure debt investments are based on the current yields on the existing assets held by these two companies. As CIRC's regulation on insurance fund management develops over time, both PICC Life and PICC Health are able to capture more and more opportunities in investing in assets that provides superior investment return. The assumption on the rate of investment return used by PICC Life and PICC Health is 5.75% p.a. for the valuation at 31 December 2012.

5. ASSUMPTIONS *(continued)*

5.3 Policy Dividend

The expected level of participating policy dividend is derived based on the participating policy of PICC Life and PICC Health. Readers should be aware that insurance companies need to consider a variety of factors when deciding on participating policy dividends. Hence there are some uncertainties in each year's participating policy dividends. In section 6 Sensitivity Test of this report, we have illustrated the degree of impact on the Value of In-Force Business and Value of One Year's New Business that may be caused by the change in the level of participating policy dividend.

5.4 Mortality Rates

Considering that both two companies have relatively short operating history, the mortality assumptions are set based on the industry experience and the reinsurance rates obtained by PICC Life:

Ultimate mortality rates (before multiplied by the selection factors):

- Non-annuity products: 65% of China Life Insurance Industry Mortality Table (2000-2003) – Non-Annuitant Table;

- Annuity products: 65% of China Life Insurance Industry Mortality Table (2000-2003) – Annuitant Table.

Selection factors are used in first two policy years; while ultimate mortality rate assumptions are used from the third policy year and thereafter.

5.5 Morbidity Rates

Considering the short operating history of PICC Life and PICC Health, the ultimate morbidity assumption is set to be 80% of pricing morbidity rates. Selection factors are used in first two policy years; while ultimate morbidity rates apply from the third policy year and thereafter.

5.6 Claim Ratio

The claim ratio assumptions are applied to the short term health and accident business. The claim ratio assumptions are set based on actual experience. They are in the range from 31% to 97% of gross premium depending on the lines of business.

5. ASSUMPTIONS *(continued)*

5.7 Lapse Rates

Lapse rate assumptions are based on lapse experience of PICC Life and PICC Health. The rates vary according to product line, payment mode and policy year. As the policy terms of universal life business allow flexibility in premium payment, premium holiday assumptions are also set for regular premium universal life business.

5.8 Expenses and Commissions

Expense assumptions are set based on the past experience, expense management approach and the expected future expense level of PICC Life and PICC Health. It is assumed that the future inflation rate is 2.5% p.a.

Commission assumptions are set based on overall commission level of PICC Life and PICC Health, and vary by products.

5.9 Tax

Corporate income tax is currently levied at 25% on taxable profits. According to the current tax regulations, the investment incomes which are exempt from income tax include Income on government bonds other than capital gains, dividend income from direct equity interest in other resident enterprises, bonus and other equity investment gains and fund dividends.

The short-term accidental insurance business is subject to 5.5% business tax and surtax.

6. SENSITIVITY TEST

In order to help users of this report understand the impact of assumptions on the Value of In-Force Business and Value of One Year's New Business, the results of sensitivity tests using a range of alternative assumptions are illustrated in this chapter. The range of sensitivity tests are selected to reflect the uncertainties in China's future investment environment and other operations associated with PICC Life and PICC Health. The range is selected after considering the range of tests commonly used in the industry. In each of the tests, only the assumption referred to is changed, while the other assumptions are kept unchanged. For the investment return assumption scenario, the expected participating policyholder dividend will also change.

The range of sensitivity tests chosen does not represent the boundary of all possible outcomes. They merely illustrate how alternative assumptions may affect the results.

The results of sensitivity tests are summarized in Table 6.1 to 6.4.

Table 6.1 The Value of In-Force Business of PICC Life as at 31 December 2012 under Alternative Scenarios Assumptions (Unit: RMB Million)

	Risk Discount Rate at 9%		Risk Discount Rate at 10.0%		Risk Discount Rate at 11.0%	
Scenarios	VIF before CoC	VIF after CoC	VIF before CoC	VIF after CoC	VIF before CoC	VIF after CoC
Base Scenario	17,694	16,091	16,739	14,915	15,901	13,882
Investment rate of return plus 50 bps	21,410	20,012	20,233	18,605	19,201	17,369
Investment rate of return less 50 bps	14,008	12,200	13,273	11,254	12,627	10,422
Expenses increased by 10%	17,547	15,944	16,597	14,773	15,764	13,745
Expenses reduced by 10%	17,840	16,238	16,880	15,057	16,037	14,019
Lapse rates increased by 10%	17,301	15,755	16,399	14,636	15,603	13,650
Lapse rates reduced by 10%	18,119	16,454	17,105	15,216	16,220	14,132
Mortality increased by 10%	17,632	16,033	16,684	14,864	15,851	13,836
Mortality reduced by 10%	17,755	16,149	16,794	14,967	15,950	13,929
Morbidity increased by 10%	17,682	16,079	16,728	14,904	15,891	13,872
Morbidity reduced by 10%	17,706	16,103	16,750	14,926	15,911	13,892
Short-term business claim ratio increased by 10%	17,655	16,052	16,700	14,876	15,862	13,843
Short-term business claim ratio reduced by 10%	17,733	16,130	16,778	14,954	15,940	13,921
Participating Ratio (80/20)	16,188	14,585	15,270	13,446	14,466	12,448
150% of Minimum Solvency Requirement	17,694	14,926	16,739	13,566	15,901	12,365

6. SENSITIVITY TEST *(continued)*

Table 6.2 The Value of In-Force Business of PICC Health as at 31 December 2012 under Alternative Scenarios Assumptions (Unit: RMB Million)

	Risk Discount Rate at 9%		Risk Discount Rate at 10.0%		Risk Discount Rate at 11.0%	
Scenarios	**VIF before CoC**	**VIF after CoC**	**VIF before CoC**	**VIF after CoC**	**VIF before CoC**	**VIF after CoC**
Base Scenario	3,173	2,966	2,989	2,761	2,831	2,586
Investment rate of return plus 50 bps	3,714	3,537	3,490	3,290	3,297	3,079
Investment rate of return less 50 bps	2,630	2,393	2,487	2,231	2,362	2,091
Expenses increased by 10%	3,107	2,900	2,925	2,697	2,768	2,523
Expenses reduced by 10%	3,239	3,032	3,054	2,826	2,893	2,649
Lapse rates increased by 10%	3,009	2,821	2,843	2,636	2,699	2,476
Lapse rates reduced by 10%	3,352	3,124	3,148	2,897	2,973	2,705
Mortality increased by 10%	3,169	2,962	2,986	2,758	2,827	2,583
Mortality reduced by 10%	3,177	2,970	2,993	2,765	2,834	2,589
Morbidity increased by 10%	3,160	2,953	2,977	2,749	2,819	2,575
Morbidity reduced by 10%	3,187	2,979	3,002	2,774	2,842	2,598
Short-term business claim ratio increased by 10%	2,680	2,473	2,507	2,279	2,359	2,114
Short-term business claim ratio reduced by 10%	3,663	3,456	3,468	3,240	3,299	3,055
Participating Ratio (80/20)	3,149	2,942	2,966	2,738	2,808	2,563
150% of Minimum Solvency Requirement	3,173	2,804	2,989	2,577	2,831	2,381

6. SENSITIVITY TEST *(continued)*

Table 6.3 Value of One Year's New Business for the 12 months prior to 31 December 2012 of PICC Life under Alternative Scenarios Assumptions (Unit: RMB Million)

	Risk Discount Rate at 9%		Risk Discount Rate at 10.0%		Risk Discount Rate at 11.0%	
Scenarios	V1NB before CoC	V1NB after CoC	V1NB before CoC	V1NB after CoC	V1NB before CoC	V1NB after CoC
Base Scenario	4,876	4,343	4,646	4,031	4,437	3,749
Investment rate of return plus 50 bps	5,876	5,408	5,592	5,040	5,336	4,708
Investment rate of return less 50 bps	3,896	3,297	3,717	3,039	3,555	2,806
Expenses increased by 10%	4,569	4,036	4,339	3,725	4,132	3,444
Expenses reduced by 10%	5,184	4,651	4,952	4,337	4,741	4,053
Lapse rates increased by 10%	4,772	4,257	4,552	3,957	4,353	3,686
Lapse rates reduced by 10%	4,989	4,438	4,747	4,111	4,527	3,817
Mortality increased by 10%	4,863	4,331	4,633	4,020	4,425	3,738
Mortality reduced by 10%	4,889	4,355	4,658	4,042	4,448	3,759
Morbidity increased by 10%	4,875	4,342	4,644	4,030	4,435	3,747
Morbidity reduced by 10%	4,878	4,345	4,647	4,032	4,438	3,750
Short-term business claim ratio increased by 10%	4,801	4,268	4,571	3,956	4,362	3,673
Short-term business claim ratio reduced by 10%	4,951	4,418	4,721	4,106	4,512	3,824
Participating Ratio (80/20)	4,228	3,695	4,015	3,400	3,823	3,134
150% of Minimum Solvency Requirement	4,876	3,972	4,646	3,598	4,437	3,259

6. SENSITIVITY TEST *(continued)*

Table 6.4 Value of One Year's New Business for the 12 months prior to 31 December 2012 of PICC Health under Alternative Scenarios Assumptions (Unit: RMB Million)

	Risk Discount Rate at 9%		Risk Discount Rate at 10.0%		Risk Discount Rate at 11.0%	
Scenarios	V1NB before CoC	V1NB after CoC	V1NB before CoC	V1NB after CoC	V1NB before CoC	V1NB after CoC
Base Scenario	808	772	780	738	753	706
Investment rate of return plus 50 bps	889	858	857	821	827	786
Investment rate of return less 50 bps	729	686	703	655	679	626
Expenses increased by 10%	773	737	745	703	719	672
Expenses reduced by 10%	844	807	814	772	787	739
Lapse rates increased by 10%	783	749	756	716	731	686
Lapse rates reduced by 10%	836	797	805	760	777	726
Mortality increased by 10%	808	771	779	737	752	705
Mortality reduced by 10%	809	773	780	738	753	706
Morbidity increased by 10%	807	771	779	736	752	705
Morbidity reduced by 10%	810	773	781	739	754	707
Short-term business claim ratio increased by 10%	568	532	546	504	525	478
Short-term business claim ratio reduced by 10%	1,049	1,012	1,014	971	981	934
Participating Ratio (80/20)	789	753	761	719	735	687
150% of Minimum Solvency Requirement	808	737	780	696	753	659

7. MOVEMENT ANALYSIS

Table 7.1 shows the analysis of Embedded Value movement from 31 December 2011 to 31 December 2012 based on 10% risk discount rate.

Table 7.1 Analysis of Embedded Value Movement from 31 December 2011 to 31 December 2012 (Unit: RMB Million)

No.	Description	PICC Life	PICC Health
1	Embedded Value as at 31 December 2011	**22,685**	**2,907**
2	New Business Contribution	4,173	766
3	Expected Return	1,812	209
4	Investment Return Variance	1,256	182
5	Other Experience Variance	(710)	(538)
6	Assumption Changes	1,471	58
7	Capital Change and Market Value Adjustment	218	985
8	Embedded Value as at 31 December 2012	**30,906**	**4,569**

Note: Figures may not add up due to rounding.

Explanations to above items 2 to 7:

2. The contribution of new business sold in 2012 to the embedded value as at the end of December 2012.

3. The expected return in 2012 arising from the in-force business and adjusted net worth at 2011 year end.

4. The variance in 2012 between the actual investment return and the assumed investment return.

5. Other variances in 2012 between experiences and assumptions.

6. The impact on Embedded Value due to the changes in assumptions. For PICC Life, it is mainly caused by a new service starting from 2012 to policyholders of accruing interest on the maturity benefit.

7. The impact on Embedded value due to capital changes and the changes in market value adjustments of the Adjusted Net Worth during 2012.

8. RELIANCE AND LIMITATION

In carrying out our work, we have relied upon information supplied to us by PICC Group, PICC Life and PICC Health at 31 December 2012 and before, as well as the information from public sources.

In particular, we have relied on the following information:

- Data record of PICC Life and PICC Health insurance policies in force as at 31 December 2012;
- Data record of PICC Life and PICC Health long-term business insurance policies issued during the period from 1 January 2012 to 31 December 2012;
- Data record of PICC Life and PICC Health short-term business premium income during the period from 1 January 2012 to 31 December 2012;
- Description and the related information on product features, terms and conditions, including cash surrender values, administrative charges, premium rates and persistency bonuses;
- Information on the mortality rates, morbidity rates, expense loading and commission loading used in pricing;
- Information on the calculation basis of statutory reserve and cash surrender value;
- Information regarding reinsurance arrangements and contracts;
- Statistical data and experience analysis relating to the current and historical operating experience of PICC Life and PICC Health;
- Information on the expenses and commissions incurred by PICC Life and PICC Health in the past;
- Regulatory reports, forms and supporting valuation information of PICC Life and PICC Health submitted to regulators in 2012;
- Information on investment assets, including asset mix, investment return, market value and book value, of PICC Life and PICC Health as at 31 December 2012;
- Information on current and future investment strategies of PICC Life and PICC Health;
- Information regarding the accrued interest service on maturity benefit provided by PICC Life, including reports to CIRC, internal operation standard, sample information of corresponding policies, etc.;
- Information on the practices of PICC Life and PICC Health in determining participating policyholder dividend, crediting rates, the total amount of participating dividend deposited in the companies and dividend collection mode at the date of valuation;
- The audited balance sheets, income statements and solvency reports of PICC Life and PICC Health as at 31 December 2012;
- Information regarding the value of policy reserves on solvency reporting basis and accounting principles of enterprise basis by product for PICC Life and PICC Health as at 31 December 2012; and
- The appraisal report of real estate as at 31 December 2012 provided by PICC Life which is issued by an independent appraiser.

8. RELIANCE AND LIMITATION *(continued)*

We have reviewed the reasonableness of certain information provided to us and compared them against our understanding of the insurance industry in China. It should be noted that our scope of work does not include independent verification or audit of the accuracy and completeness of the policy data and other information provided to us.

Our scope of work does not include reviewing the fair value of the asset portfolio of PICC Life and PICC Health, nor the adequacy of provisions in the balance sheets.

The results contained in this report only considered the claims made by policyholders in the normal course of business. We have not intended to determine the impact on the valuation results of PICC Life and PICC Health brought by any other claims.

The results presented in this report are not intended to imply any direct reflection of market value or potential transaction value, nor do they represent an estimate of the whole or part of the fair value of PICC Life and PICC Health. The actual market value is determined by investors based on a range of the information they obtain and their own criteria of investment standard.

The results illustrated in this report are based on a range of assumptions regarding future. The actual outcome in the future can be different from the illustrated results due to changes in the competition environment, economic environment and random fluctuation. We do not guarantee that the future experience will be the same as the assumptions.

Readers should consider all contents of this report in full, as a section or several sections in isolation do not provide sufficient information to lead to proper conclusion.

For Deloitte Consulting (Shanghai) Co. Ltd., Beijing Branch

Eric Lu
Principal of Deloitte Actuarial and Insurance Solutions

To the shareholders of The People's Insurance Company (Group) of China Limited
(Incorporated in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of The People's Insurance Company (Group) of China Limited (the "Company") and its subsidiaries (together, the "Group"), which comprise the consolidated and company statements of financial position as at 31 December 2012, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants

Hong Kong
25 March 2013

Consolidated Income Statement

Year ended 31 December 2012

(in RMB million)	*Notes*	**2012**	2011
Gross written premiums	6	**265,216**	249,047
Less: Premiums ceded to reinsurers	6	**(31,406)**	(39,200)
Net written premiums	6	**233,810**	209,847
Change in unearned premium reserves		**(8,993)**	(3,499)
Net earned premiums		**224,817**	206,348
Reinsurance commission income		**10,438**	13,304
Investment income	7	**20,043**	13,799
Other income	8	**2,051**	2,840
TOTAL INCOME		**257,349**	236,291
Claims and policyholders' benefits	9	**170,411**	160,287
Life insurance death and other benefits paid		**15,213**	19,557
Claims incurred		**102,255**	90,082
Changes in long-term life insurance contract liabilities		**50,072**	48,254
Policyholder dividends		**2,871**	2,394
Handling charges and commissions		**20,205**	18,109
Finance costs	10	**4,989**	4,665
Exchange losses, net		**50**	424
Other operating and administrative expenses		**48,945**	43,424
TOTAL BENEFITS, CLAIMS AND EXPENSES		**244,600**	226,909
Share of profits and losses of associates		**571**	828
PROFIT BEFORE TAX	11	**13,320**	10,210
Income tax expense	14	**(3,176)**	(2,313)
PROFIT FOR THE YEAR		**10,144**	7,897
Attributable to:			
Equity holders of the parent		**6,832**	5,185
Non-controlling interests		**3,312**	2,712
		10,144	7,897
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	15		
– Basic and diluted (in RMB)		**0.20**	0.16

Consolidated Statement of Comprehensive Income

Year ended 31 December 2012

(in RMB million)	*Note*	**2012**	2011
PROFIT FOR THE YEAR		**10,144**	7,897
OTHER COMPREHENSIVE INCOME	16		
Fair value gains/(losses) on available-for-sale investments		**7,479**	(10,736)
Net gains/(losses) on cash flow hedges		**(100)**	286
Net gains on revaluation of properties and prepaid land premiums upon transfer to investment properties		**235**	899
Share of other comprehensive income of associates		**149**	(91)
Actuarial losses on pension benefit obligation		**(52)**	(118)
Exchange differences on translating foreign operations		**–**	(27)
Income tax relating to components of other comprehensive income		**(544)**	580
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**7,167**	(9,207)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**17,311**	(1,310)
Attributable to:			
– Equity holders of the parent		**12,354**	(1,810)
– Non-controlling interests		**4,957**	500
		17,311	(1,310)

Consolidated Statement of Financial Position

31 December 2012

(in RMB million)	*Notes*	**31 December 2012**	31 December 2011
ASSETS			
Cash and cash equivalents	17	**73,873**	55,333
Derivative financial assets	18	**73**	184
Debt securities	19	**217,369**	213,996
Equity securities	20	**119,729**	71,050
Insurance receivables, net	21	**23,305**	23,437
Reinsurance assets	22, 35	**23,875**	25,223
Term deposits	23	**120,115**	94,716
Restricted statutory deposits		**7,880**	7,635
Investments in associates	25	**3,361**	2,951
Investment properties	26	**8,450**	7,529
Property and equipment	27	**21,942**	19,060
Intangible assets	28	**4,106**	3,933
Deferred tax assets	29	**2,215**	2,826
Other assets	30	**62,357**	42,670
Assets of a disposal group classified as held for sale		**–**	14,609
TOTAL ASSETS		**688,650**	585,152
LIABILITIES			
Securities sold under agreements to repurchase	32	**71,290**	54,080
Derivative financial liabilities	18	**3**	–
Income tax payable		**72**	520
Due to banks and other financial institutions	33	**362**	284
Subordinated debts	34	**34,855**	34,670
Insurance contract liabilities	35	**391,577**	326,281
Investment contract liabilities for policyholders	36	**50,312**	49,156
Policyholder dividends payable		**5,486**	3,125
Pension benefit obligation	37	**2,952**	3,056
Deferred tax liabilities	29	**98**	36
Other liabilities	38	**48,301**	57,187
Liabilities directly associated with the assets classified as held for sale		**–**	8,822
TOTAL LIABILITIES		**605,308**	537,217
EQUITY			
Issued capital	39	**42,424**	34,491
Reserves	40	**22,950**	(3,147)
Equity attributable to equity holders of the parent		**65,374**	31,344
Non-controlling interests		**17,968**	16,591
TOTAL EQUITY		**83,342**	47,935
TOTAL EQUITY AND LIABILITIES		**688,650**	585,152

Consolidated Statement of Changes in Equity

Year ended 31 December 2012

		Attributable to equity holders of the parent										
			Reserves									
(in RMB million)	*Note*	Share capital *(note 39)*	Share premium account	Available-for-sale investment revaluation reserve	General risk reserve *(note 40 (a))*	Changes in associates' equity	Revaluation surplus from acquisitions	Surplus reserve fund	Other reserves *(note 40 (b))*	Retained profits	Non-controlling interests	Total equity
Balance at 1 January 2012		34,491	6,104	(9,873)	1,287	47	252	136	(13,418)	12,318	16,591	47,935
Profit for the year		–	–	–	–	–	–	–	–	6,832	3,312	10,144
Other comprehensive income	16	–	–	5,416	–	94	–	–	64	(52)	1,645	7,167
Total comprehensive income		–	–	5,416	–	94	–	–	64	6,780	4,957	17,311
Appropriations to general risk reserve		–	–	–	781	–	–	181	–	(962)	–	–
Dividends paid to non-controlling shareholders		–	–	–	–	–	–	–	–	–	(812)	(812)
Issue of shares		7,933	13,821	–	–	–	–	–	–	–	–	21,754
Acquisition of non-controlling interests		–	–	–	–	–	–	–	(78)	–	78	–
Disposal of subsidiaries		–	–	–	(19)	–	(252)	–	–	271	(2,846)	(2,846)
Balance at 31 December 2012		42,424	19,925	(4,457)	2,049	141	–	317	(13,432)	18,407	17,968	83,342

		Attributable to equity holders of the parent										
			Reserves									
(in RMB million)	*Note*	Share capital *(note 39)*	Share premium account	Available-for-sale investment revaluation reserve	General risk reserve *(note 40 (a))*	Changes in associates' equity	Revaluation surplus from acquisitions	Surplus reserve fund	Other reserves *(note 40 (b))*	Retained profits	Non-controlling interests	Total equity
Balance at 1 January 2011		30,600	–	(2,399)	729	91	252	–	(13,983)	7,945	13,478	36,713
Profit for the year		–	–	–	–	–	–	–	–	5,185	2,712	7,897
Other comprehensive income	16	–	–	(7,474)	–	(44)	–	–	641	(118)	(2,212)	(9,207)
Total comprehensive income		–	–	(7,474)	–	(44)	–	–	641	5,067	500	(1,310)
Appropriations to general risk reserve		–	–	–	558	–	–	–	–	(558)	–	–
Appropriations to surplus reserve fund		–	–	–	–	–	–	136	–	(136)	–	–
Dividends paid to non-controlling shareholders		–	–	–	–	–	–	–	–	–	(792)	(792)
Issue of shares		3,891	6,104	–	–	–	–	–	–	–	–	9,995
Capital contributions by non-controlling interests		–	–	–	–	–	–	–	–	–	3,777	3,777
Acquisition of non-controlling interests		–	–	–	–	–	–	–	(76)	–	(370)	(446)
Others		–	–	–	–	–	–	–	–	–	(2)	(2)
Balance at 31 December 2011		34,491	6,104	(9,873)	1,287	47	252	136	(13,418)	12,318	16,591	47,935

Consolidated Statement of Cash Flows

Year ended 31 December 2012

(in RMB million)	*Notes*	**2012**	2011
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**13,320**	10,210
Adjustments for:			
Investment income	7	**(20,043)**	(13,799)
Exchange losses, net		**50**	424
Share of profits and losses of associates		**(571)**	(828)
Interest income on entrusted loans		**(52)**	(26)
Depreciation of property and equipment	11, 27	**1,621**	1,485
Amortisation of intangible assets	11, 28	**188**	192
Disposal gains from investment properties, property and equipment and intangible assets	8	**(251)**	(176)
Finance costs except for interest credited to policyholders	10	**3,061**	2,905
Impairment losses		**210**	298
Share issuance finance cost		**57**	–
Investment expenses		**128**	88
Increase in insurance receivables, net		**(104)**	(13,424)
Increase in other assets and prepayments, net		**(1,244)**	(2,939)
Increase/(decrease) in payables to reinsurers		**(9,873)**	17,319
Increase in other liabilities and accruals		**3,072**	13,432
Increase in insurance contract liabilities, net		**66,642**	62,807
Cash generated from operations		**56,211**	77,968
Income tax paid		**(3,689)**	(3,211)
Net cash flows from operating activities		**52,522**	74,757
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**17,193**	12,409
Dividend received from equity securities		**3,152**	2,357
Increase in policy loans		**(1,215)**	(3,387)
Disposal of subsidiaries		**2,205**	(38)
Capital expenditures		**(4,491)**	(5,087)
Disposals of investment properties, property and equipment and intangible assets		**402**	462
Investments in associates		**–**	(64)
Purchase of investments, net		**(62,155)**	(54,763)
Payments for investment expenses		**(128)**	(88)
Collection of loans and advances		**265**	94
Placement of deposits with banks and other financial institutions with original maturity of more than three months and structured deposits		**(28,601)**	(68,329)
Maturity of deposits with banks and other financial institutions with original maturity of more than three months and structured deposits		**3,186**	16,944
Net cash flows used in investing activities		**(70,187)**	(99,490)

(in RMB million)	*Notes*	**2012**	2011
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		**22,345**	9,995
Increase in securities sold under agreements to repurchase		**17,209**	24,367
Issue of subordinated debts	34	**–**	4,983
Capital contributions from non-controlling interests		**–**	3,777
Proceeds from borrowings		**98**	427
Repayment of debts and borrowings		**(90)**	(195)
Interest paid		**(2,668)**	(2,413)
Dividends paid to non-controlling shareholders		**(812)**	(792)
Acquisition of non-controlling interests		**–**	(350)
Others		**(23)**	–
Net cash flows from financing activities		**36,059**	39,799
Net increase in cash and cash equivalents		**18,394**	15,066
Cash and cash equivalents at beginning of the year		**55,507**	40,498
Effects of exchange rate changes on cash and cash equivalents		**(28)**	(57)
Cash and cash equivalents at end of the year		**73,873**	55,507
Analysis of balances of cash and cash equivalents			
Cash on hand	17	**179**	1
Securities purchased under resale agreements with original maturity of no more than three months	17	**2,435**	2,652
Demand deposits and deposits with banks and other financial institutions with original maturity of less than three months	17	**71,259**	52,680
Cash and cash equivalents attributable to a disposal group classified as held for sale		**–**	174
Cash and cash equivalents at end of the year		**73,873**	55,507

Statement of Financial Position

31 December 2012

(in RMB million)	*Notes*	**31 December 2012**	31 December 2011
ASSETS			
Cash and cash equivalents	17	**22,325**	196
Debt securities	19	**–**	538
Equity securities	20	**2,686**	421
Term deposits		**115**	212
Investments in subsidiaries	24	**62,011**	60,955
Investments in associates	25	**3,301**	2,891
Investment properties	26	**1,075**	–
Property and equipment	27	**209**	759
Intangible assets	28	**93**	174
Other assets	30	**1,653**	2,066
Total assets		**93,468**	68,212
LIABILITIES			
Subordinated debts	34	**9,708**	9,708
Pension benefit obligation	37	**2,952**	3,056
Other liabilities	38	**3,010**	1,226
Total liabilities		**15,670**	13,990
EQUITY			
Share capital	39	**42,424**	34,491
Reserves	40	**35,374**	19,731
Total equity		**77,798**	54,222
Total equity and liabilities		**93,468**	68,212

1. CORPORATE INFORMATION

The Company's predecessor, the People's Insurance Company of China, is a state-owned enterprise established on 20 October 1949 by the government of the People's Republic of China (the "PRC"). The Company was established on 22 August 1996 in the PRC and its registered office is located at No. 69, Dongheyan Street, Xuanwu District, Beijing 100052, the PRC.

The Company is an investment holding company. During the year ended 31 December 2012, the Company's subsidiaries mainly provide integrated financial products and services and are engaged in property and casualty ("P&C") insurance, life and health insurance, asset management and other businesses.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), which comprise all standards and interpretations approved by the International Accounting Standards Board ("IASB"), and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements have been prepared under the historical cost basis convention, except for investment properties and certain financial instruments, which have been measured at fair value, and insurance contract liabilities, which have been measured based on actuarial methods. Disposal groups classified as held for sale are stated at the lower of their carrying amounts and fair value less costs to sell. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest million except when otherwise indicated.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following revised IFRSs for the first time effective for the current year's financial statements.

IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*
IAS 12 Amendments	Amendments to IAS 12 *Income Taxes (Amendment) – Deferred Taxes: Recovery of Underlying Assets*

The adoption of these revised standards did not have any material effect on the financial performance or position of the Group. They did, however, give rise to additional disclosures in some occasions.

Further information of these revised IFRSs most relevant to the Group are as follows:

IAS 12 Amendments clarify the determination of deferred tax for investment property measured at fair value and introduce a rebuttable presumption that deferred tax on investment property measured at fair value should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, the amendments incorporate the requirement previously in SIC 21 *Income Taxes – Recovery of Revalued Non-Depreciable Assets* that deferred tax on non-depreciable assets, measured using the revaluation model in IAS 16, should always be measured on a sale basis.

IFRS 7 Amendments introduce more extensive quantitative and qualitative disclosure requirements regarding transfer transactions of financial assets (e.g., securitisations), including information for understanding the possible effects of any risks that may remain within the entity that transfers the assets.

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective, in these financial statements.

IFRS 1 Amendments	Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Government Loans*[2]
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*[2]
IFRS 9	*Financial Instruments*[4]
IFRS 10	*Consolidated Financial Statements*[2]
IFRS 11	*Joint Arrangements*[2]
IFRS 12	*Disclosure of Interests in Other Entities*[2]
IFRS 13	*Fair Value Measurement*[2]
IAS 1 Amendments (2011)	Amendments to IAS 1 *Presentation of Financial Statements – Presentation Items of Other Comprehensive Income*[1]
IAS 19 (2011)	*Employee Benefits*[2]
IAS 27 (2011)	*Separate Financial Statements*[2]
IAS 28 (2011)	*Investments in Associates and Joint Ventures*[2]
IAS 32 Amendments	Amendments to IAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*[3]
IFRIC Interpretation 20	Stripping Costs in the Production Phase of a Surface Mine[2]
Amendments to IFRS 10, IFRS 11 and IFRS 12	Amendments to IFRS 10, IFRS 11 and IFRS 12: *Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance*[2]
Amendments to IFRS 10, IFRS 12 and IAS 27 (2011)	Amendments to IFRS 10, IFRS 12 and IAS 27 (2011): *Consolidated Financial Statements, Disclosure of Interests in Other Entities and Separate Financial Statements: Investment Entities*[3]
Annual Improvements 2009-2011 cycle	Amendments to a number of IFRSs issued in May 2012

1 Effective for annual periods beginning on or after 1 July 2012
2 Effective for annual periods beginning on or after 1 January 2013
3 Effective for annual periods beginning on or after 1 January 2014
4 Effective for annual periods beginning on or after 1 January 2015

Further information about those IFRSs that are expected to be applicable to the Group is as follows:

IFRS 7 Amendments require an entity to disclose information about rights of set-off and related arrangements. The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or "similar agreement", irrespective of whether they are set off in accordance with IAS 32. The Group expects to adopt the amendments from 1 January 2013.

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs *(continued)*

IFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace IAS 39 *Financial Instruments: Recognition and Measurement*. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of IAS 39.

In October 2010, the IASB issued additions to IFRS 9 to address financial liabilities (the "Additions") and incorporated in IFRS 9 the current derecognition principles of financial instruments of IAS 39. Most of the Additions were carried forward unchanged from IAS 39, while changes were made to the measurement of financial liabilities designated at fair value through profit or loss using the fair value option ("FVO"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income ("OCI"). The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of the Additions.

IAS 39 is aimed to be replaced by IFRS 9 in its entirety. Before this entire replacement, the guidance in IAS 39 on hedge accounting and impairment of financial assets continues to apply. The Group expects to adopt IFRS 9 from 1 January 2015. The Group will quantify the effect in conjunction with other phases, when the final standard including all phases is issued.

IFRS 10 establishes a single model that applies to all entities including special purpose entities or structured entities. It includes a new definition of control which is used to determine which entities are consolidated. The changes introduced by IFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled, compared with the requirements in IAS 27 and SIC 12 *Consolidation – Special Purpose Entities*. IFRS 10 replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also addressed the issues raised in SIC 12. The Group is currently assessing the impact that this standard will have on the financial position and performance.

IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and SIC 13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. It describes the accounting for joint arrangements with joint control. It addresses only two forms of joint arrangements, i.e. joint operations and joint ventures, and removes the option to account for joint ventures using proportionate consolidation.

IFRS 12 includes the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities previously included in IAS 27 *Consolidated and Separate Financial Statements*, IAS 31 *Interests in Joint Ventures* and IAS 28 *Investments in Associates*. It also introduces a number of new disclosure requirements for these entities.

In June 2012, the IASB issued amendments to IFRS 10, IFRS 11 and IFRS 12 which clarify the transition guidance in IFRS 10 and provide adjusted comparative information to only the preceding comparative period. The amendments clarify that retrospective adjustments are only required if the consolidation conclusion as to which entities are controlled by the Group is different between IFRS 10 and IAS 27 or SIC 12 at the beginning of the annual period in which IFRS 10 is applied for the first time. Furthermore, for disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before IFRS 12 is first applied.

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs *(continued)*

The amendments to IFRS 10 issued in October 2012 included a definition of an investment entity and provide an exception to the consolidation requirement for entities that meet the definition of an investment entity. Investment entities are required to account for subsidiaries at fair value through profit or loss in accordance with IFRS 9 rather than consolidate them. Consequential amendments were made to IFRS 12 and IAS 27 (2011). The amendments to IFRS 12 also set out the disclosure requirements for investment entities. The Group expects that these amendments will not have any impact on the Group as the Company is not an investment entity as defined in IFRS 10.

Consequential amendments were made to IAS 27 and IAS 28 as a result of the issuance of IFRS 10, IFRS 11 and IFRS 12. The Group expects to adopt IFRS 10, IFRS 11, IFRS 12, IAS 27 (2011), IAS 28 (2011) and the subsequent amendments to these standards issued in June and October 2012 from 1 January 2013.

IFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but provides guidance on how fair value should be applied where its use is already required or permitted under other IFRSs. The Group expects to adopt IFRS 13 prospectively from 1 January 2013.

The IAS 1 Amendments change the grouping of items presented in OCI. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, net gain on hedge of a net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) would be presented separately from items which will never be reclassified (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendments will affect presentation only and have no impact on the financial position or performance. The Group expects to adopt the amendments from 1January 2013.

IAS 19 (2011) include a number of amendments that range from fundamental changes to simple clarifications and re-wording. The revised standard introduces significant changes in the accounting for defined benefit pension plans including removing the choice to defer the recognition of actuarial gains and losses. Other changes include modifications to the timing of recognition for termination benefits, the classification of short-term employee benefits and disclosure of defined benefit plans. The Group expects to adopt IAS 19 (2011) from 1 January 2013.

IAS 32 Amendments clarify the meaning of “currently has a legally enforceable right to setoff” for offsetting financial assets and financial liabilities. The amendments also clarify the application of the offsetting criteria in IAS 32 to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2014.

The Annual Improvements 2009-2011 Cycle issued in May 2012 sets out amendments to a number of IFRSs. The Group expects to adopt the amendments from 1 January 2013. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group for the year ended 31 December 2012.

The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies.

All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if it results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it:

- Derecognises the assets (including good will) and liabilities of the subsidiary;
- Derecognises the carrying amount of any non-controlling interest;
- Derecognises the cumulative translation differences recorded in equity;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in profit or loss; and
- Reclassifies the Group's share of components previously recognised in other comprehensive income to profit or loss or retained profits, as appropriate.

(2) Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities. The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries that are not classified as held for sale in accordance with IFRS 5 are stated at cost less any impairment losses.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(3) Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long-term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

Investments in its associates are accounted for using the equity method. Goodwill is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The income statement reflects the share of the results of operations of the associates. Where there have been changes recognised directly in the equity of the associates, share of any changes is recognised and disclosed, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associates are eliminated to the extent of the investments in the associates.

Upon application of the equity method, it shall be determined whether it is necessary to recognise an additional impairment loss on the investments in its associates. At the end of each reporting date, it is determined whether there is any objective evidence that the investment is impaired. If this is the case, the amount of impairment is calculated as the difference between the recoverable amount of the associates and its carrying values and is recognised in the income statement.

Upon loss of significant influence over the associates, any remaining investment is measured and recognised at the fair value. Any differences between the carrying amount of the associates upon loss of significant influence and the fair value of the remaining investment and proceeds from disposal are recognised in profit or loss.

(4) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair value of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(4) Business combinations and goodwill *(continued)*

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree. No classification of insurance contracts is required for business combination. However, this does not preclude the Group from reclassifying insurance contracts to accord with its own policy only if classification needs to be made on the basis of the contractual terms and other factors at the inception or modification date.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 is measured at fair value with changes in fair value either recognised in profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(5) Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short-term highly liquid investments that are readily convertible into known amounts of cash, which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and the amounts of cash restricted as to use and form an integral part of the Group's cash management.

(6) Foreign currency translation

The Group's presentation currency is the RMB, which is also the functional currency of the Company and its domestic subsidiaries.

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e. translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain overseas subsidiaries and associates are currencies other than the RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates prevailing at the end of the reporting period and their income statements are translated into RMB at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(7) Financial assets

Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition.

When financial assets are recognised initially, they are measured at fair value, plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

The classification depends on the purpose for which the investments were acquired or originated. The available-for-sale and held-to-maturity categories are used when the relevant liabilities (including shareholders' funds) are relatively passively managed and/or carried at amortised cost. Financial assets are classified as at fair value through profit or loss when, for example, the Group acquires such assets to cover certain insurance and investment contract liabilities measured at fair value.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and negative net changes in fair value presented as finance costs in the income statement. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

Financial assets designated upon initial recognition at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in IAS 39 are satisfied.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(7) Financial assets *(continued)*

Subsequent measurement (continued)

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investment and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the income statement in investment income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the income statement in investment expense. Interest and dividends earned whilst holding the available-for-sale financial instruments are reported as interest income and dividend income, respectively and are recognised in the income statement in accordance with the policies set out for "Revenue recognition" below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets and management's intent to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or to maturity. Reclassification to the held-to-maturity category is permitted only when the Group has the ability and intent to hold until the maturity date of the financial asset.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(7) Financial assets *(continued)*

Subsequent measurement (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost, using the effective interest rate method, less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate method. The effective interest rate amortisation is included in other income in the income statement. The loss arising from impairment is recognised in the income statement in finance costs for loans and in other operating and administrative expenses for receivables.

Held-to-maturity financial assets

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity when the Group has the positive intention and ability to hold them to maturity. Held-to-maturity investments are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in the income statement. The loss arising from impairment is recognised in the income statement.

Derecognition of financial assets

A financial asset (or, when applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

(a) the rights to receive cash flows from the asset have expired; or

(b) the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either: (a) the Group has transferred substantially all the risks and rewards of the asset; or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its right to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(8) Impairment of financial assets

The Group assesses at the end of the reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Available-for-sale financial assets

For available-for-sale financial assets, the Group assesses at the end of the reporting period whether there is objective evidence that an investment or a group of investments is impaired. If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is removed from other comprehensive income and recognised in the income statement.

The impairment analysis and amounts recorded are based the functional currency of the group entity holding the investment.

For equity securities, a significant or prolonged decline in the fair value of an equity instrument is objective evidence of impairment. In conducting an impairment analysis, the Group considers quantitative and qualitative evidence. More specifically, the Group collectively considers the magnitude of the decline in fair value relative to the cost, volatility, and the duration of the decline in evaluating whether a decline in fair value is significant. The Group considers the period and consistency of the decline in evaluating whether a decline in fair value is prolonged. In general, the larger the magnitudes of the decline in fair value relative to cost, the lower the volatility, the longer the duration of the decline or the more consistent the magnitude of decline, the more likely objective evidence of impairment of an equity instrument exists.

The Group also considers qualitative evidence that includes, but is not necessarily limited to the following:

- Significant financial difficulty of the investee, including failure to comply with contractual obligations, financial restructuring, deterioration of going concern expectations

- Adverse changes relative to the investee's technology, market, customer base, macro-economic indicators relative to the business, significant legal or regulatory matters

Impairments do not establish a new cost basis and, accordingly, to the extent an impairment loss has been previously recorded due to the significant or prolonged criteria described above, any subsequent losses, including any portion attributable to foreign currency changes, are also recognised in profit or loss until the asset is derecognised.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(8) Impairment of financial assets *(continued)*

Available-for-sale financial assets (continued)

If after an impairment loss has been recognised on an available-for-sale debt instrument and the fair value of the debt instrument increases in a subsequent period whereby the increase can be objectively related to an event occurring after the impairment losses were recognised, the impairment loss is reversed which is recognised in profit or loss. Impairment losses recognised for equity instruments classified as available for sale are not reversed through profit or loss.

Financial assets carried at amortised cost

If financial assets carried at amortised cost are impaired, the carrying amount of the financial assets is reduced to the present value of estimated future cash flows (excluding future credit losses that have not been incurred) and the reduction is recognised as an impairment loss in the income statement. The present value of estimated future cash flows shall be calculated with the financial asset's original effective interest rate and the related collateral value shall also be taken into account. For financial assets with floating interest rate, the present value of estimated future cash flows shall be calculated with the effective interest rate stipulated by the contract.

For a financial asset that is individually significant, the Group assesses the asset individually for impairment, and recognises the amount of impairment in profit or loss. For a financial asset that is not individually significant, the Group assesses the asset individually for impairment or includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether the financial asset is individually significant or not, the financial asset is included in a group of financial assets with similar credit risk characteristics and collectively assessed for impairment. Financial assets for which an impairment loss is individually recognised are not included in a collective assessment of impairment.

After the Group recognises an impairment loss of financial assets carried at amortised cost, if there is objective evidence that the financial assets' value restores and the restoration can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss shall be reversed and recognised in profit or loss. However, the reversal shall not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment was reversed.

Financial assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(9) Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, an amount due to the ultimate holding company, derivative financial instruments and interest-bearing bank and other borrowings.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in the income statement. The net fair value gain or loss recognised in the income statement does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition as fair value through profit or loss are designated at the date of initial recognition and only if the criteria in IAS 39 are satisfied.

Financial liabilities at amortised cost (including interest-bearing borrowings)

Financial liabilities including securities sold under agreements to repurchase amounts due to banks and other financial institutions, subordinated debts, investment contract liabilities for policyholders, miscellaneous payables and accruals are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. The related interest expense is recognised in the income statement.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(9) Financial liabilities *(continued)*

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

(10) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously. Income and expenses will not be offset in the consolidated income statement unless required or permitted by any accounting standards or interpretations, as specifically disclosed in the accounting policies of the Group.

(11) Fair value of financial instruments

The fair value of financial instruments that are traded in active financial markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm’s length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

For discounted cash flow techniques, estimated future cash flows are based on management’s best estimates and the discount rate used is a market related rate for similar instruments. Certain financial instruments, including derivative financial instruments, are valued using pricing models that consider, among other factors, contractual and market prices, correlation, time value of money, credit risk, yield curve volatility factors and/or prepayment rates of the underlying positions. The use of different pricing models and assumptions could produce materially different estimates of fair value.

If the fair value cannot be measured reliably, financial instruments are measured at cost (being the fair value of the consideration paid for the acquisition of the investment or the amount received on issuing the financial liability), less impairment losses. All transaction costs directly attributable to the acquisition are also included in the cost of the investment.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(12) Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. These financial guarantee contracts provide specified payments to reimburse the holder for a loss it incurs when a guaranteed party defaults under the original or modified terms of a debt instrument, loan or other obligation. The Group initially measures such contracts at fair value. This amount is recognised ratably over the period of the contract to fees and commission income. Subsequently, the liabilities are measured at the higher of the initial fair value less cumulative amortisation and the fair value of the provision related to the Group's obligations under the contract.

Apart from the above financial guarantee contracts issued by the Group which are accounted for under IAS 39, the Group has previously regarded certain contracts it issued with a financial guarantee element as insurance contracts and has used the accounting methods applicable to insurance contracts, and accordingly has elected to apply IFRS 4 to account for such contracts.

(13) Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as interest rate swaps, to hedge its interest rate risk. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to the income statement, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income.

For the purpose of hedge accounting, hedges are classified as cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting, the risk management objective and its strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the hedging instrument's effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(13) Derivative financial instruments and hedge accounting *(continued)*

Initial recognition and subsequent measurement (continued)

Hedges which meet the strict criteria for hedge accounting and are classified as cash flow hedges are accounted for as follows:

The effective portion of the gain or loss on the hedging instrument is recognised directly in other comprehensive income in the cash flow hedging reserve, while any ineffective portion is recognised immediately in the income statement.

Amounts recognised in other comprehensive income are transferred to the income statement when the hedged transaction affects profit or loss, such as when hedged financial income or financial expense is recognised or when a forecast sale occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts recognised in other comprehensive income are transferred to the initial carrying amount of the non-financial asset or non-financial liability.

If the forecast transaction or firm commitment is no longer expected to occur, the cumulative gain or loss previously recognised in equity is transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, the amounts previously recognised in other comprehensive income remain in other comprehensive income until the forecast transaction or firm commitment affects profit or loss.

(14) Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period.

Gains or losses arising from the retirement or disposal of investment property shall be determined as the difference between the net disposal proceeds and the carrying amount of the asset and shall be recognised in profit or loss (unless IAS 17 requires otherwise on a sale and leaseback) in the period of the retirement or disposal.

For a transfer from investment properties to owner-occupied properties or inventories, the deemed cost of a property for subsequent accounting is its fair value at the date of change in use. If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under “Property and equipment and depreciation” up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is accounted for as an asset revaluation reserve.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(15) Property and equipment and depreciation

Property and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	2.38% to 19.4%
Office equipment, furniture and fixtures	3.7% to 32.33%
Motor vehicles	6.47% to 24.25%

Where parts of an item of property and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

(16) Construction in progress

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property and equipment when completed and ready for use.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(17) Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

The useful lives of the respective intangible assets are as follows:

Category	Amortisation period
Prepaid land premiums	30-70 years
Software and others	3-10 years

Prepaid land premiums

Prepaid land premiums under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property and equipment.

(18) Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that a non-financial asset other than deferred tax assets, investment properties and a disposal group classified as held for sale may be impaired. If any such indication exists, or when annual impairment testing for a non-financial asset is required, the Group makes an estimate of the asset's recoverable amount. A non-financial asset's recoverable amount is the higher of the asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs. Where the carrying amount of a non-financial asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(18) Impairment of non-financial assets *(continued)*

An impairment loss is charged to the income statement in the period in which it arises in those expense categories with the function of the impaired assets.

For non-financial assets other than goodwill, an assessment is made at the end of 2012 and 2011 as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the Group makes an estimate of the recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement.

Intangible assets with indefinite useful lives are tested for impairment annually at the end of each year, either individually or at the cash-generating unit level, as appropriate.

(19) Insurance guarantee fund

Since 1 January 2009, pursuant to "Administrative Regulations on the Insurance Guarantee Fund" (Baojianhuiling [2008] No. 2), the Group has calculated the insurance guarantee fund as follows:

- 0.8% of the premium income for non-investment-type property insurance, 0.08% of the consideration received for investment-type property insurance with guaranteed return, and 0.05% of the consideration received for investment-type property insurance without guaranteed return;

- 0.15% of the consideration received for life insurance with guaranteed return, and 0.05% of the consideration received for life insurance without guaranteed return;

- 0.8% of the premium income for short-term health insurance, and 0.15% of the premium income for long-term health insurance; and

- 0.8% of the premium income for non-investment-type accident insurance, 0.08% of the consideration received for investment-type accident insurance with guaranteed return, and 0.05% of the consideration received for investment-type accident insurance without guaranteed return.

No additional provision is required when the accumulated insurance guarantee fund balances of a life insurance company reach 1% of its respective total assets. For a non-life insurance company, no additional provision is required when the accumulated balance reaches 6% of its total assets.

When calculating the insurance guarantee fund, premium income refers to the amount stipulated in the contract before any unbundling or reclassification to financial liabilities.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(20) Insurance receivables

Insurance receivables are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. Subsequent to initial recognition, insurance receivables are measured at amortised cost, using the effective interest rate method. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be receivable, with the impairment loss recorded in the income statement.

Insurance receivables are derecognised when the derecognition criteria for financial assets have been met.

(21) Insurance contracts

Insurance contracts are those contracts under which the Group has accepted significant insurance risk from the policyholders by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. Insurance contracts are classified as direct insurance contracts and reinsurance contracts. The significance of insurance risk as determined by the Group is dependent on both the probability of an insurance event and the magnitude of its potential effect.

Some insurance contracts contain both an insurance component and a deposit component. The Group chooses to unbundle those components, if the insurance component and the deposit component are distinct and separately measurable.

The unbundled insurance component is accounted for according to IFRS 4 and the unbundled deposit component is accounted for according to relevant accounting policies. If the insurance component and the deposit component are not distinct and separately measurable, the whole contract is accounted for as an insurance contract.

(22) Significant insurance risk testing

For other insurance contracts issued by the Group, tests are performed to determine if the contracts contain significant insurance risk, and contracts of a similar nature are grouped together for this purpose. When performing the significant insurance risk testing, the Group makes judgements in sequence as to whether the contract transfers insurance risk, whether the contract has commercial substance, and whether the transferred insurance risk is significant.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(23) Insurance contract liabilities

The insurance contract liabilities of the Group include long-term life insurance contract liabilities, unearned premium reserves and claim reserves.

When measuring insurance contract liabilities, the Group classifies insurance contracts whose insurance risks are of a similar nature as a measurement unit. Non-life and short-term life insurance policies are grouped into certain measurement units by lines of business. For long-term life insurance policies, the measurement unit is each individual insurance contract.

Insurance contract liabilities are measured based on a reasonable estimate of amount of payments when the Group fulfils the relevant obligations under the insurance contracts, which represents the difference between expected future cash outflows and inflows under such contracts, i.e. the expected future net cash outflows.

- Expected future cash outflows represent reasonable cash outflows which are necessary for the Group to fulfil the obligations under the insurance contracts (including benefits attributable to the policyholders), and mainly include:

  (a) Guaranteed benefits under the insurance contracts, including claims, mortality benefits, disability benefits, morbidity benefits, survival benefits and maturity benefits;

  (b) Non-guaranteed benefits under the insurance contracts arising from constructive obligations, including policyholder dividends;

  (c) Reasonable expenses necessary for policy administration and claims handling, including policy maintenance expenses and claim expenses.

- Expected future cash inflows represent cash inflows arising from assuming liabilities under the insurance contracts, including premium income and other charges.

A reasonable estimate of expected future net cash flows is determined based on information currently available as at the end of the reporting period.

Margins are considered and separately measured in determining insurance contract liabilities. Margins are released in the income statement over the insurance coverage period using systematic and reasonable methods. Margins include risk margin and residual margin.

- Risk margin represents provision for the uncertainty associated with the future net cash flows.

- At inception of an insurance contract, any “day-one” gain is not recognised in the income statement, but included in the insurance contract liabilities as a residual margin. At inception of an insurance contract, any “day-one” loss is recognised in the income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(23) Insurance contract liabilities *(continued)*

For non-life insurance contracts, the Group amortises the residual margin on a time basis during the whole insurance coverage period and records it in profit or loss. For life insurance contracts, the Group amortises the residual margin on the basis of the effective sums insured or the release of risk margin during the whole insurance coverage period.

When measuring insurance contract liabilities, time value of money is considered. The related future cash flows are discounted when the impact of time value of money is significant. For short duration contracts which duration is within one year, the cash flows are not discounted. The discount rates used in the measurement of time value of money are determined with reference to information currently available as at the end of 2012 and 2011 and are not fixed.

When measuring insurance contract liabilities, the expected period of future net cash outflows is the entire insurance period. For insurance policies with a guaranteed renewal option, the expected period is extended to the date when the option to renew policy ceases if the probability that the policyholders may execute the option is high and the Group does not have the right to reprice the premium.

Unearned premium reserves

Unearned premium reserves are provided for unexpired insurance obligations of non-life and short-term life insurance contracts.

Unearned premium reserves are measured using the unearned premium approach. At inception of the insurance contracts, unearned premium reserves are measured based on written premiums, with deductions made for commissions, business tax, insurance guarantee fund, regulatory charges and other direct and indirect acquisition costs. Subsequent to the initial recognition, unearned premium reserves are released on a 1/365 or 1/24 basis according to the insurance coverage period.

The Group uses a variety of methods, including the capital cost method, and considers market data to assess risk margin of the unearned premium reserves.

Claim reserves

Claim reserves are insurance contract liabilities provided for insurance claims of the non-life insurance contracts which have occurred but are not yet settled. Claim reserves include incurred and reported reserves, incurred but not reported (“IBNR”) reserves and claim expense reserves.

Incurred and reported reserves are measured at amounts not higher than the sum insured of the insurance contracts, using the case-by-case estimation method and average claim per case method, based on a reasonable estimate of ultimate claim amounts as well as margins.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(23) Insurance contract liabilities *(continued)*

Claim reserves (continued)

IBNR reserves are measured according to the nature and distribution of insurance risks, claims development, experience data, etc., using the chain ladder method, average claim per case method, expected loss ratio method, Bornhuetter-Ferguson method and so on, based on a reasonable estimate of ultimate claim amounts as well as margins.

Claim expense reserves are measured based on a reasonable estimate of ultimate necessary claim expenses in the future by using the case-by-case estimation method and ratio allocation method.

The Group uses a variety of methods, including the capital cost method, and considers market data to assess risk margin of the claim reserves.

Long-term life insurance contract reserves

Long-term life insurance contract reserves are insurance contract liabilities provided for long-term life and health insurance contracts.

Long-term life insurance contract liabilities mainly consist of best estimate value of the liability, risk margin and residual margin. Best estimate values are measured based on reasonable estimates in payments when the Group fulfils relevant obligations under the insurance contracts, which represent the difference between expected future cash outflows and inflows under such contracts.

The Group determines risk margins of the long-term life insurance contract liabilities using the cost of capital method.

Any day-1 gain at policy inception is not recognised. Instead, it is incorporated into insurance contract reserve as residual margin, and is amortised during the whole policy term.

The key assumptions used in the measurement of long-term life insurance contract liabilities include accident rates, lapse and surrender rates, expense assumptions, policy dividends and discount rates. In deriving these assumptions, the Group uses information currently available as at the end of the reporting period.

Liability adequacy tests

At the end of each reporting period, liability adequacy tests are performed on the unearned premium reserves, claim reserves and long-term life insurance contract liabilities. If the insurance contract liabilities re-calculated with the insurance actuarial methods exceed their carrying amounts on the date of the liability adequacy test, an additional provision is made for the respective insurance contract liabilities based on the difference. Otherwise, no adjustment is made for the respective insurance contract liabilities.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(24) Investment contracts

Insurance policies that are not considered insurance contracts under IFRS 4 are classified as investment contracts. These policies do not contain significant insurance risk.

- Premium receipts are recognised not as premium income, but rather as liabilities, presented as investment contract liabilities. For those non-life investment type policies without guaranteed benefits, the related contract liabilities are measured at fair value and the related transaction costs are recognised in the income statement. For other investment contracts, the related liabilities are initially measured at fair value and subsequently measured at amortised cost. Commissions and other expenses incurred, net of receipts from initial charges that are meant to compensate such costs, are recognised as transaction costs in the initial amount of the liabilities.

- Charges including policy administration fees are recognised as other income during the period of service provided.

(25) Universal life contracts

The universal life contracts of the Group contain both insurance and deposit components, where the insurance components are accounted for as insurance contracts. The deposit components are unbundled and accounted for as follows:

- Premium receipts are recognised not as premium income, but rather as liabilities, presented in investment contract liabilities for policyholders. These liabilities are initially measured at fair value and subsequently measured at amortised cost. Commissions and other expenses incurred, net of receipts from initial charges that are meant to compensate such costs, are recognised as transaction costs in the initial amount of the liabilities.

- Fees from surrenders and other service charges are recognised in other income.

(26) Provisions

Except contingent considerations deriving from or contingent liabilities assumed in business combinations, contingent liabilities are recognised as provisions if the following conditions are met:

- An entity has a present obligation as a result of a past event;

- It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and

- A reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision shall be the best estimate of the expenditure required to settle the present obligation at the end of the reporting period with the consideration of risks, uncertainties and the present value. Provisions shall be reviewed at the end of the reporting period and adjusted to reflect the current best estimate.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(27) Assets purchased under agreements to resell and assets sold under repurchase agreements

Assets sold under repurchase agreements continue to be recognised but a liability is established for the consideration received. The Group may be required to provide additional collateral based on the fair value of the underlying assets and such collateral assets continue to be carried on the statement of financial position at the end of the reporting period.

The Group enters into purchases of assets under agreements to resell substantially identical assets. These agreements are classified as loans and receivables. Assets purchased under agreements to resell are recorded at the cost of the amounts advanced. The amounts advanced under these agreements are reflected as assets in the statement of financial position. The Group may not take physical possession of assets purchased under agreements to resell. In the event of default by the counterparty to repay the loan, the Group has the right to the underlying assets.

(28) Employee benefits

Employee benefits, including salaries and bonuses, social security contributions and other short-term employee benefits are accrued when services have been rendered by the employees of the Group.

The employees of the Company and its subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the municipal and provincial governments. The entities are required to contribute certain percentages of their payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

Termination benefits

If an enterprise cancels the labour relations with any employee prior to the expiration of the relevant labour contract or brings forward any compensation proposal for the purpose of encouraging the employee to accept layoff, the following conditions are met concurrently, the enterprise shall recognise the expected liabilities incurred due to the compensation for the cancellation of labour relation with the employee, and shall simultaneously record them into the profit or loss for the current period. The conditions are that the enterprise has constituted a formal plan of labour relations cancellation or compensation proposal of layoff which are about to be implemented, and the enterprise was unable to unilaterally withdraw the plan of labour relations cancellation or the proposal of layoff.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(28) Employee benefits *(continued)*

Early retirement and retirement benefits

During the reorganisation in 2003, the Group undertook the expenses related to a retirement scheme and an early retirement scheme which include endowment and medical costs of the retirees except for social security ("retirement scheme") and welfare, employee education fund, union fees, social security and housing fund of the early retired staff for the period from the early retirement date to the actual retirement date for early retirement by 30 April 2003 ("early retirement scheme") and retirement by 31 July 2003, respectively. The contributions of the early retirement scheme and retirement scheme are made by the Group on a monthly basis taking into account the period the employee serves the Group and the determined scheme policies. The Group's early retirement scheme and retirement scheme shall apply in the same way as the termination scheme mentioned above. When the related conditions met, the early retirement employees' salaries and social security expense for the period between the early retirement date and the actual retirement date are recorded as liabilities and charged to the income statement. For the retirement scheme, the Group recognises the relevant estimated liabilities as well as charges to the income statement once the Group undertakes the obligations.

Where the obligations of retirement scheme and early retirement scheme fall due more than 12 months after the end of the reporting period, they shall be discounted using the appropriate discount rate and mortality rate, and carried at discounted amount as liabilities. The discount rate is determined using the yield rate of government bonds with similar terms at the end of the reporting period.

Actuarial gains or losses include the experience adjustment (the impact of the difference between the previous actuarial assumption and actual results) and the impact of changes on actuarial assumption. The actuarial gains or losses are recognised in equity when incurred.

Interest expense is charged to the income statement as other operating and administrative expenses according to the result of multiplying the discount rate which is determined at the commencement of the retirement scheme within the accounting period and the early retirement scheme by the average present value over the entire terms.

(29) Policyholder dividends

Policyholder dividends represent dividends paid by the Group to policyholders in accordance with the terms of direct insurance contracts. The dividends are calculated and provided based on the dividend allocation method and the results of actuarial valuation.

(30) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the consolidated income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the income statement on the straight-line basis over the lease terms.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(31) Satellite insurance fund

Pursuant to the "The Administrative Regulation on the Satellite Insurance Fund" (Cai Shang Zi [1997] No. 472), the Group was obligated to undertake the satellite launch insurance business which is not for commercial consideration. China Aviation Insurance Consortium insures the satellite launch business, and the Company is the lead manager of the Consortium. All the members of the Consortium share relative rights and obligations. The fund is composed of the satellite launch insurance premium income less business tax and surcharges, add reinsurance recoveries from reinsurers and interest income, less administrative expenses and premiums ceded. According to the above-mentioned regulation, the satellite insurance fund is a long-term liability of the Group, which must be deposited in a special account or used only for the purchase of government bonds. Investment income derived from the fund, including deposit interest income or net interest income of government bonds after tax, must be transferred into the fund. When the accumulated satellite insurance fund of the Consortium reaches RMB2.5 billion, any profit on top of that amount will then be recorded in the income statement. The Group is entitled to its percentage of the fund when the Consortium is dissolved.

(32) Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably on the following bases:

Gross premiums

Premium income and reinsurance premium income are recognised when the insurance contracts are issued, related insurance risk is undertaken by the Group, it is probable that the related economic benefits will flow to the Group and the related income can be reliably measured.

Premiums from life insurance contracts with instalment or single payments are recognised as revenue when due. Premiums from direct non-life insurance contracts are recognised as revenue based on the amount of total premium stated in the contracts.

Reinsurance premiums are recognised as revenue in accordance with the terms stated in the reinsurance contracts.

Fees and commission income

Insurance and investment contract policyholders are charged for policy administration services, investment management services, surrenders and other contract fees. These fees are recognised as revenue over the period in which the related services are performed. If the fees are for services provided in future periods, then they are deferred and recognised over those future periods. When the investment contracts are measured at amortised cost, these fees are deferred and recognised over the term of the policy by an adjustment to the effective yield.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(32) Revenue recognition *(continued)*

Investment income

Interest income is recognised in the income statement as it accrues and is calculated by using the effective interest rate method. Fees and commissions that are an integral part of the effective yield of the financial asset or liability are recognised as an adjustment to the effective interest rate of the instrument.

Investment income also includes dividends when the right to receive payment is established. For listed securities, this is the date the security is listed as ex-dividend.

Realised gains and losses

Realised gains and losses recorded in the income statement on investments include gains and losses on financial assets and investment properties. Gains and losses also include the ineffective portion of hedge transactions. Gains and losses on the sale of investments are calculated as the difference between the net sales proceeds and the original or amortised cost and are recorded on occurrence of the sales transaction.

Rental income

Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease terms and included in revenue due to its operating nature.

(33) Reinsurance

The Group undertakes inward and outward reinsurance in the normal course of operations.

Outward reinsurance business

Ceded reinsurance arrangements do not relieve the Group from its obligations to policyholders. When recognising premium income from insurance contracts, the Group calculates to determine the amount of premium ceded and reinsurers' share of expenses and recognise them through profit or loss according to reinsurance contracts. When calculating unearned premium reserves, claim reserves and long term life policyholders' reserves of insurance contracts, the Group estimates the reinsurance related cash flows according to the reinsurance contracts, considers the risk margin when determining the amount of insurance contract reserves to be recovered from reinsurers, and recognises reinsurers' share of insurance contract liabilities. When insurance contract liabilities are reduced for actual payment of claims and claim expenses, reinsurers' share of insurance contract liabilities are reduced accordingly. In the meantime, the Group calculates to determine the amount of claim expenses to be recovered from the reinsurers according to the reinsurance contracts and recognises the amount through profit or loss. When there is an early termination of an insurance contract, the Group calculates to determine the adjustment amount of premium ceded and reinsurers' share of expenses according to the reinsurance contracts and recognises the amount through profit or loss, and the balance of reinsurers' share of insurance contract liabilities is reversed accordingly.

As a cedent, the Group presents in the statement of financial position the assets arising from reinsurance contracts and the liabilities arising from insurance contracts separately instead of offsetting the assets and liabilities. The Group also presents in the income statement the income derived from reinsurance contracts and the expenses incurred for insurance contracts separately instead of offsetting the income and expenses.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(33) Reinsurance *(continued)*

Inward reinsurance business

During the period of recognising reinsurance premium income, the Group determines reinsurance expenses according to the reinsurance contracts and recognises the expenses through profit or loss. As for profit commission, the Group recognises it as a reinsurance expense through profit or loss according to the reinsurance contracts when it is feasible to determine the amount of profit commission to be paid to the reinsurers.

Upon receipt of the statement of the reinsurance business, the Group adjusts the reinsurance premium income and reinsurance expenses, and then recognises the adjusted amounts through profit or loss according to the reckoning statement.

(34) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e. assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

(35) Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the income statement by way of a reduced depreciation charge.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(36) Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group; or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a); and

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(37) Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the year end, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the year end between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(37) Income tax *(continued)*

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and associates when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry-forward of unused tax credits and any unused tax losses, deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the year end and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of the reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(38) Non-current assets and disposal groups held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally though a sales transaction rather than through continuing use. For this to be the case, the asset or disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets or disposal groups and its sale must be highly probable. All assets and liabilities of a subsidiary classified as a disposal group are reclassified as held for sale regardless of whether the Group retains a non-controlling interest in its former subsidiary after the sale.

Non-current assets and disposal groups (other than investment properties and financial assets) classified as held for sale are measured at the lower of their carrying amounts and fair value less costs to sell. Property and equipment and intangible assets classified as held for sale are not depreciated or amortised.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and their accompanying disclosures and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations and assumptions, which have the most significant effect on the amounts recognised in the financial statements:

(1) Operating lease commitments – Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

(2) Classification and measurement of financial assets

Management needs to make judgements on the classifications of financial assets as different classifications will affect the accounting treatment for the financial assets, and the financial position and operating results of the Group. The management of the Group judges whether fair value can be measured reliably for available-for-sale equity financial assets without prices in an active market, and measures them at cost if they cannot be measured reliably.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

Judgements *(continued)*

(3) Unbundling, classification and significant risk testing of insurance contracts

The Group has made significant judgement on whether an insurance contract bears insurance risk and other risks, and whether the risks are distinct and can be measured separately. The results of the judgement will affect the unbundling of the contract.

At the same time, the Group has made judgement on whether the insurance contract and reinsurance contract transfers insurance risk, and whether the transfer of insurance risk has commercial substance and is significant. The results of the judgement will affect the classification of the contract.

When performing significant insurance risk testing, contracts under the same product of a similar risk nature are grouped together and after considering the distribution and risk characteristics of the contracts, each contract from an adequate sample representing the group is tested. All contracts in the group will be recognised as insurance contracts if more than 50% of the contracts in the sample transfer significant insurance risk.

The unbundling and classification of insurance contracts affect revenue recognition, measurement of liabilities and presentation of the financial statements of the Group.

(4) Measurement unit of insurance contract liabilities

The Group has made significant judgement on whether a group of insurance contracts of the same measurement unit has insurance risk of the same nature during the measurement of insurance contract liabilities as the results of the judgement will affect the measurement results of the insurance contract liabilities.

(5) Impairment of available-for-sale equity financial instruments

The Group has made judgement on whether there has been a significant or prolonged decline in the fair value of an equity instrument below its cost to determine whether impairment should be recognised in the income statement. Please refer to note 2.4(8) for the factors the Group considers when making such judgement.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

Judgements *(continued)*

(6) Business combinations

For the transaction that the Group obtained the equity interests in one or more companies, the Group needs to judge whether the deal is a business combination.

Being a business combination needs to meet at least two conditions: (1) obtaining control of the acquired company; (2) the acquired company constitutes a business of the Group. A business comprises the production and operating activities within the enterprise or some combination of assets and liabilities which have the ability to input, process and output and the cost and revenue can be independently calculated. Whether the assets or combination of assets and liabilities constitute a business need to be comprehensively judged based on the internal relations of the acquired assets and liabilities and the process. If the acquiree does not constitute a business, the transaction or event is not a business combination.

If the Group obtains a group of assets or net assets which does not constitute a business, the Group should allocate the acquisition costs based on the relative fair values of the acquired identifiable assets and liabilities on the acquisition date, rather than account for it as a business combination.

(7) Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately or leased out separately under a finance lease, the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

(8) Impairment loss on a right to acquire an equity interest in a securities company

For the right to acquire an equity interest in a securities company, judgement is required to determine when impairment is required.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the year end, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

(1) Impairment of loans and receivables

When there is objective evidence that there is impairment in loans and receivables, the Group assesses the degree of risk and collectability of each item. The Group needs to recognise an impairment loss in the income statement if the present value of expected future cash flows is less than the carrying amount of loans and receivables. The Group mainly considers the financial situation and credit rating of the debtors and changes in the capital market.

Other than impairment for individual receivables, the Group also collectively assesses impairment for receivables. Such collective assessment is carried out for a group of insurance business activities with similar credit characteristics. The degree of impairment depends on the timing and amount of future cash flows.

(2) Impairment of unquoted equity investments measured at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

The measurement of provision for impairment loss of long-term equity investments involves the judgement for the reasonableness of the estimation of the future cash flows and determination of a discount rate. The Group has considered the financial performance, macroeconomic situation and industry development of the relevant investments.

The carrying values of unquoted equity investments measured at cost are disclosed in note 20.

(3) Impairment of reinsurance assets

The Group performs an impairment review on its reinsurance assets when an indication of impairment occurs. In considering whether a reinsurance asset is impaired, the Group considers whether (i) there is objective evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that the Group may not be able to receive all amounts due to it under the terms of the contract; and (ii) the event has a reliably measurable impact on the amounts that the Group will receive from the reinsurer.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

Estimation uncertainty *(continued)*

(4) Impairment of non-current assets other than financial assets

The Group makes judgement on whether there is an indication that non-current assets other than financial assets may be impaired as at the end of the reporting period. When any such indication exists, the Group performs impairment testing for the asset or a group of assets and makes estimate of the recoverable amount. Where the carrying amount of the asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. The Group determines the recoverable amount according to the higher of the fair value less costs to sell and the present value of estimated future cash flows. Fair value less costs to sell is determined with reference to the prices in sales agreements or observable market prices of similar assets in fair transactions. When using the present value of estimated future cash flows, management must use the estimated future cash flows of the asset or a group of assets, and select the appropriate discount rate to determine the present value of the future cash flows.

(5) Fair value of financial assets and derivative financial instruments determined using valuation techniques

Fair value, in the absence of an active market or when current market prices are not available, is estimated by using valuation techniques, such as with reference to the price used in recent market transactions between voluntary parties familiar with the circumstance, current market value of another instrument which is substantially the same, a discounted cash flow analysis and/or option pricing models. For reference to similar instruments, instruments must have similar credit ratings.

When using valuation techniques to determine the fair value of financial instruments, the Group uses all the market parameters to be practicable and considered by market participants when pricing the financial instruments, including the risk-free rate, credit risk, exchange risk, product price, share price or index, volatility rate, prepayment risk and so on. In addition, the management makes estimations of the counterparty's credit risk, volatility rate and so on, when market parameters are unobservable.

Using different valuation techniques or parameters may result in relatively significant differences in the estimation of fair value.

(6) Valuation of insurance contract liabilities

At the end of the reporting period, when measuring the insurance contract liabilities, the Group needs to make a reasonable estimate of amounts of the payments which the Group is required to make in fulfilling the obligations under the insurance contracts, based on information currently available at the end of the reporting period.

At the end of the reporting period, the Group shall make an estimate of the assumptions used in the measurement of insurance contract liabilities. Such assumptions shall be determined based on information currently available at the end of the reporting period. To determine these assumptions, the Group selects proper risk margins according to both uncertainties and degree of impact of expected future cash outflows.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

Estimation uncertainty *(continued)*

(6) Valuation of insurance contract liabilities (continued)

The main assumptions made in measuring unearned premium reserves are as follows:

- For insurance contracts under which future insurance benefits are not affected by investment income of the underlying asset portfolio, the discount rates are determined based on the 750-day moving average of the yield curve of China's treasury bonds published by China Government Securities Depository Trust & Clearing Co., Ltd., with consideration of the tax effect and illiquidity premiums. In consideration of the difference between the yield curve of the interbank policy finance bonds and the yield curve of the interbank treasury bonds, the Group used premiums of 50-94 basis points as at 31 December 2012 (2011: 50-80 basis points). The discount rates including premiums used as at 31 December 2012 were 3.12%-6.29% (2011: 2.65%-6.25%).

  For insurance contracts which future insurance benefits will be affected by investment income of the underlying asset portfolio, the discount rates are determined based on expected future investment returns of the investment portfolio backing the liabilities. The discount rates used by the Group as at 31 December 2012 were 5.25%-5.5% (2011: 5%-5.5%).

  The discount rate and investment return assumptions are affected by the future macro-economy, capital market, investment channels of insurance funds, investment strategy, etc, and therefore subject to uncertainty.

- Mortality, morbidity, disability rates are based on the Group's historical experience, market experience and development trends. Mortality rates are determined based on the Group's historical data, estimations of current and future expectations and the understanding of China's insurance market, and presented using the standard Chinese mortality tables. Morbidity rates are determined based on factors such as the pricing assumptions of the Group's products, historical data, estimations of current and future expectations, and so on. The assumptions of mortality and morbidity rates are affected by factors such as changes in lifestyles of national citizens, social development, and improvement of medical treatment, and hence subject to uncertainty.

- Lapse rates depend on policy year, product type and sales channel. The assumptions of lapse rates are affected by factors such as future macro-economy and market competition, and hence subject to uncertainty.

- Expenses depend on costs analysis and future development trends. For future expenses sensitive to inflation, the Group also considers the effect of inflation. The expense assumptions include assumptions of acquisition costs and maintenance costs. The Group only considers expenses directly related to policy acquisition and maintenance.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

Estimation uncertainty *(continued)*

(6) Valuation of insurance contract liabilities (continued)

The assumptions made in measuring unearned premium reserves are as follows: *(continued)*

- Policyholder dividend depends on factors such as expected investment yields, dividend policy and policyholders' reasonable expectations. The assumption of participating insurance accounts is affected by the above factors, and hence bears uncertainty. Policyholder dividend assumption of the individual participating insurance business of the Group is measured based on 70% of the distributable surplus according to the contracts.

- The Group determines the risk margin assumptions for unearned premium reserves based on the available information at the end of the reporting period. In assessing non-life insurance unearned premium reserves, the risk margin of agricultural insurance was re-determined at 39.5% at the year end (2011: 39.5%). Other lines of insurance are referenced to the industry guideline of 3%.

The major assumptions needed in measuring claim reserves include the claim development factor and expected claim ratio, which can be used to forecast trends of future claims so as to estimate the ultimate claim expenses. The claim development factors and the expected loss ratio for various measurement units are based on past claims development experience and loss ratios, taking into consideration changes in company policies such as the underwriting policy, expenses and claims handling, and changing trends in external environment such as economic conditions, regulations and legislation.

The Group determines the risk margin assumptions for claim reserves based on the available information at the end of the reporting period. In assessing non-life insurance claim reserves, the risk margin of agricultural insurance was re-determined at 39% at the end of 2012 (2011: 39%). Other lines of insurance are made reference to the industry guideline of 2.5%.

Management is of the opinion that as at the end of the reporting period, claim reserve is sufficient to cover all incurred events to date but cannot guarantee there is no under provision or overprovision of the reserve, which is an estimate of the ultimate losses.

The changes in the related actuarial assumptions resulted in an decrease of RMB83 million in gross insurance contract reserves as at 31 December 2012 (2011: decrease of gross insurance contract reserves amounting to RMB352 million).

During 2012, except for changes in assumptions mentioned above, there are no significant changes in the assumptions.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

Estimation uncertainty *(continued)*

(7) Deferred tax assets

Deferred tax assets are recognised for unused tax losses and temporary deductible differences to the extent that it is probable that taxable profit will be available against which the used tax losses and temporary deductible differences can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits as well as the applicable tax rates together with future tax planning strategies.

There are some uncertainties as the estimation of future taxable profit involves a number of estimations for future transactions, including whether the actuarial assumptions and practical experience are uniform, the performance of future investment market, as well as the accounting policies modification's influence on tax payment.

(8) Fair value of investment properties

The fair value of investment properties is based on regular appraisals by independent professional values. The fair values represent the estimated amount for which the property could be exchanged on the date of valuation between a willing buyer and willing seller in an-arm's length transaction after proper marketing wherein the parties each acted knowledgeably, prudently and without compulsion. The valuations are based on either: (i) current prices in an active market for similar properties, or if unavailable; (ii) recent prices of similar properties taking into consideration factors such as transaction conditions, transaction date and location; or (iii) a discounted cash flow analysis of each property. The discounted cash flow analyses are based on capitalisation of net rental income derived from the existing tenancies with allowance for the reversionary income potential of the properties, using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

For the current year, investment properties were valued by independent professional valuers.

The valuation of investment properties involves various assumptions and techniques. The use of different assumptions and techniques could produce significantly different valuations.

(9) Early retirement and retirement benefits

The Group has recognised the early retirement and retirement benefits as a liability. The initial recognition of early retirement and retirement benefits is measured at the best estimate of the expenditure required to settle early-retired employees. When the Company determines the best estimate, it takes into account headcount changes of early-retired employees, the effect on future expenditure arising from inflation of prices and other factors. When selecting a proper discount rate, the Company takes into account the average period of future payment for early retirement and retirement benefits and other factors. The difference between the actuarial assumptions and actual results will have an impact on the relevant accounting estimation. Although management considers that the above assumptions are reasonable, any changes in assumption may affect the amount of provision for early retirement and retirement benefits. The assumptions that the Company used in measuring the early retirement and retirement benefits are disclosed in note 37.

4. DISPOSAL OF SUBSIDIARIES

On 8 June 2011, a 54.21% equity interest in Guanglian (Nanning) Investment Holding Co., Ltd. ("Guanglian") and a 55% equity interest in China Huawen Investment Holding Company Limited ("Huawen Holdings") held by PICC Investment Holding Company Limited ("PICC Investment Holding") were placed for sale on the Beijing Financial Assets Exchange. On 31 December 2011, the Group transferred the assets and liabilities of the respective subsidiaries, which belong to the asset management segment, to assets and liabilities of a disposal group classified as held for sale.

On 25 April 2012, PICC Investment Holding entered into share transfer agreements with Beijing International Trust Co., Ltd. ("Beijing International Trust") to transfer the above equity interests for considerations of RMB867 million and RMB1,267 million, respectively. The consideration amounts were based on the listed price on Beijing Financial Assets Exchange. On 31 May 2012, PICC Investment Holding entered into a share transfer agreement with Beijing International Trust to transfer the remaining 25% equity interest in Huawen Holdings for a consideration of RMB358 million. As a result, PICC Investment Holding ceased to consolidate Huawen Holdings and Guanglian (including subsidiaries indirectly held through Guanglian and Huawen Holdings).

(in RMB million)	**Disposal date Carrying amount**	31 December 2011 Carrying amount
Current assets	**6,276**	6,186
Non-current assets	**8,402**	8,523
Total assets	**14,678**	14,709
Current liabilities	**6,122**	6,385
Non-current liabilities	**3,124**	3,175
Total liabilities	**9,246**	9,560
Net assets	**5,432**	5,149
Equity attributable to equity holders of the parent	**2,421**	2,242
Consideration	**2,492**	
Transfer from other comprehensive income	**130**	
Gain on disposal of subsidiaries	**201**	

An analysis of the net cash inflows in respect of the disposal of these subsidiaries is as follows:

	2012
Cash consideration	**2,492**
Cash and cash equivalents disposed of	**(316)**
Net cash inflows in respect of the disposal of subsidiaries	**2,176**

4. DISPOSAL OF SUBSIDIARIES *(continued)*

There were certain contingencies and guarantees related to certain companies disposed of as shown above. As the Group no longer have any responsibilities to liabilities directly associated with the disposal group, the Group is of the opinion that those contingencies and guarantees did not have any impact on the Group from the disposal date.

5. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has the following reportable operating segments:

- The non-life insurance segment offers a wide variety of insurance products to both private and corporate customers including automobile insurance, non-automobile insurance and accident and health insurance.
- The life insurance segment offers a wide range of participating, endowments, annuity and universal life insurance products.
- The health insurance segment offers a wide range of health and care insurance products.
- The asset management segment comprises asset management services.
- The headquarters segment provides management and support for the Group's business through its strategy, risk management, treasury, finance, legal, and human resources functions.
- The "others" segment comprises other operating and insurance agent business of the Group.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) before tax. The adjusted profit/(loss) before tax from continuing operations is measured consistently with the Group's profit/(loss) before tax.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

Geographical information is not presented as most of the Group's customers, operations and assets and liabilities are located in Mainland China.

During the reporting period, no direct written premiums from transactions with a single external customer amounted to 10% or more of the Group's total direct written premiums.

5. OPERATING SEGMENT INFORMATION *(continued)*

Segment income statement for the year ended 31 December 2012

(in RMB million)	Non-life insurance	Life insurance	Health insurance	Asset management	Head-quarters	Others	Eliminations	Total
Net earned premiums	155,787	63,720	5,326	–	–	–	(16)	224,817
Reinsurance commission income	9,963	19	456	–	–	–	–	10,438
Investment income	7,522	11,476	418	574	2,382	264	(2,593)	20,043
Other income	935	535	147	925	16	155	(662)	2,051
TOTAL INCOME	174,207	75,750	6,347	1,499	2,398	419	(3,271)	257,349
– External income	174,050	75,668	6,298	1,071	149	113	–	257,349
– Intersegment income	157	82	49	428	2,249	306	(3,271)	–
Claims and policyholders' benefits	99,031	66,590	4,790	–	–	–	–	170,411
Handling charges and commissions	17,044	3,087	258	–	–	–	(184)	20,205
Finance costs	1,633	1,880	707	91	656	22	–	4,989
Exchange losses, net	13	8	–	–	29	–	–	50
Other operating and administrative expenses	43,193	3,547	1,335	710	455	274	(569)	48,945
TOTAL BENEFITS, CLAIMS AND EXPENSES	160,914	75,112	7,090	801	1,140	296	(753)	244,600
Share of profits and losses of associates	66	42	–	36	534	–	(107)	571
PROFIT/(LOSS) BEFORE TAX	13,359	680	(743)	734	1,792	123	(2,625)	13,320
Income tax credit/(expense)	(2,952)	80	–	(436)	21	(87)	198	(3,176)
PROFIT/(LOSS) FOR THE YEAR	10,407	760	(743)	298	1,813	36	(2,427)	10,144

5. OPERATING SEGMENT INFORMATION *(continued)*

Segment income statement for the year ended 31 December 2011

(in RMB million)	Non-life insurance	Life insurance	Health insurance	Asset management	Head-quarters	Others	Eliminations	Total
Net earned premiums	133,559	70,110	2,682	–	–	–	(3)	206,348
Reinsurance commission income	12,797	35	472	–	–	–	–	13,304
Investment income	3,969	8,844	672	542	1,889	166	(2,283)	13,799
Other income	820	714	324	1,215	37	275	(545)	2,840
TOTAL INCOME	151,145	79,703	4,150	1,757	1,926	441	(2,831)	236,291
– External income	150,690	79,696	4,146	1,402	95	262	–	236,291
– Intersegment income	455	7	4	355	1,831	179	(2,831)	–
Claims and policyholders' benefits	87,844	70,037	2,406	–	–	–	–	160,287
Handling charges and commissions	14,679	3,405	188	–	–	–	(163)	18,109
Finance costs	1,319	1,789	585	269	667	8	28	4,665
Exchange losses, net	327	84	5	2	6	–	–	424
Other operating and administrative expenses	36,753	3,935	1,448	1,007	361	256	(336)	43,424
TOTAL BENEFITS, CLAIMS AND EXPENSES	140,922	79,250	4,632	1,278	1,034	264	(471)	226,909
Share of profits and losses of associates	108	64	–	350	477	–	(171)	828
PROFIT/(LOSS) BEFORE TAX	10,331	517	(482)	829	1,369	177	(2,531)	10,210
Income tax credit/(expense)	(2,266)	34	–	(149)	(5)	(49)	122	(2,313)
PROFIT/(LOSS) FOR THE YEAR	8,065	551	(482)	680	1,364	128	(2,409)	7,897

5. OPERATING SEGMENT INFORMATION *(continued)*

Segment assets and liabilities as at 31 December 2012, 31 December 2011 and for the years then ended are as follows:

(in RMB million)	Non-life insurance	Life insurance	Health insurance	Asset management	Head-quarters	Others	Eliminations	Total
31 December 2012								
Segment assets	290,594	336,495	28,927	7,348	93,468	4,644	(72,826)	688,650
Segment liabilities	244,928	318,885	27,035	1,512	15,670	965	(3,687)	605,308
Other segment information:								
Capital expenditure	2,402	1,727	42	66	218	36	–	4,491
Depreciation and amortisation expenses	1,369	79	48	18	41	31	223	1,809
Impairment losses	1,583	2,113	666	13	–	(14)	–	4,361
31 December 2011								
Segment assets	266,610	273,094	23,976	18,940	68,212	4,410	(70,090)	585,152
Segment liabilities	231,279	260,653	23,161	10,495	13,990	794	(3,155)	537,217
Other segment information:								
Capital expenditure	2,650	2,152	44	121	118	2	–	5,087
Depreciation and amortisation expenses	1,268	64	46	73	17	3	206	1,677
Impairment losses	2,344	196	84	138	–	14	113	2,889

6. GROSS AND NET WRITTEN PREMIUMS

(in RMB million)		**2012**	2011
(a)	Gross written premiums		
	Long-term life insurance premiums	**64,639**	69,496
	Short-term life insurance premiums	**6,991**	5,462
	Non-life insurance premiums	**193,586**	174,089
	TOTAL	**265,216**	249,047
(b)	Premiums ceded to reinsurers		
	Long-term life insurance premiums ceded to reinsurers	**219**	111
	Short-term life insurance premiums ceded to reinsurers	**2,215**	1,870
	Non-life insurance premiums ceded to reinsurers	**28,972**	37,219
	TOTAL	**31,406**	39,200
(c)	Net written premiums	**233,810**	209,847

7. INVESTMENT INCOME

(in RMB million)	**2012**	2011
Net investment income (a)	**22,019**	16,367
Realised gains/(losses) (b)	**650**	(9)
Fair value gains/(losses) (c)	**1,525**	32
Impairment losses (d)	**(4,151)**	(2,591)
TOTAL	**20,043**	13,799

7. INVESTMENT INCOME *(continued)*

(a) Net investment income

(in RMB million)	**2012**	2011
Operating lease income from investment properties	**255**	252
Interest income		
Current and term deposits	**6,831**	4,228
Debt securities		
– Held-to-maturity	**4,940**	3,736
– Available-for-sale	**4,267**	4,712
– Carried at fair value through profit or loss	**101**	100
Derivative financial assets	**33**	60
Loans and receivables	**2,558**	1,304
SUBTOTAL	**18,730**	14,140
Dividend income		
Equity securities		
– Available-for-sale	**2,757**	1,913
– Carried at fair value through profit or loss	**277**	62
SUBTOTAL	**3,034**	1,975
TOTAL	**22,019**	16,367
An analysis of the dividend income from listed and unlisted equity securities is as follows:		
Dividend income		
Listed equity securities	**765**	462
Unlisted equity securities	**2,269**	1,513
TOTAL	**3,034**	1,975

7. INVESTMENT INCOME *(continued)*

(b) Realised gains/(losses)

(in RMB million)	**2012**	2011
Debt securities		
– Available-for-sale	**(123)**	(88)
– Carried at fair value through profit or loss	**1**	63
Equity securities		
– Available-for-sale	**(332)**	40
– Carried at fair value through profit or loss	**903**	(257)
– Gain on disposal of subsidiaries	**201**	233
TOTAL	**650**	(9)

(c) Fair value gains/(losses)

(in RMB million)	**2012**	2011
Debt securities		
– Carried at fair value through profit or loss	**(26)**	29
Equity securities		
– Carried at fair value through profit or loss	**649**	(664)
Derivative financial instruments		
– Carried at fair value through profit or loss	**(13)**	(21)
Investment properties *(note 26)*	**915**	688
TOTAL	**1,525**	32

(d) Impairment losses

(in RMB million)	**2012**	2011
Debt securities		
– Available-for-sale	**(4)**	5
Equity securities	**–**	–
– Available-for-sale	**4,145**	2,439
– Investments in associates	**10**	147
TOTAL	**4,151**	2,591

8. OTHER INCOME

(in RMB million)	**2012**	2011
Management fee charged to policyholders	**538**	868
Disposal gains from property and equipment, and intangible assets	**189**	97
Government grants	**96**	101
Disposal gains from investment properties	**62**	79
Others	**1,166**	1,695
TOTAL	**2,051**	2,840

9. CLAIMS AND POLICYHOLDERS' BENEFITS

		2012	
(in RMB million)	**Gross**	**Ceded**	**Net**
Life insurance death and other benefits paid	**15,226**	**13**	**15,213**
Claims incurred	**122,153**	**19,898**	**102,255**
– Short-term life insurance	**5,140**	**1,914**	**3,226**
– Non-life insurance	**117,013**	**17,984**	**99,029**
Changes in long-term life insurance contract liabilities	**50,117**	**45**	**50,072**
Policyholder dividends	**2,871**	**–**	**2,871**
TOTAL	**190,367**	**19,956**	**170,411**

		2011	
(in RMB million)	Gross	Ceded	Net
Life insurance death and other benefits paid	19,569	12	19,557
Claims incurred	105,735	15,653	90,082
– Short-term life insurance	3,751	1,512	2,239
– Non-life insurance	101,984	14,141	87,843
Changes in long-term life insurance contract liabilities	48,270	16	48,254
Policyholder dividends	2,394	–	2,394
TOTAL	175,968	15,681	160,287

10. FINANCE COSTS

(in RMB million)	**2012**	2011
Interest expenses		
Securities sold under agreements to repurchase	**812**	662
Subordinated debts	**1,952**	1,817
Interest credited to policyholders *(note 36)*	**1,928**	1,760
Pension benefit obligation unwound *(note 37)*	**108**	119
Others	**189**	307
TOTAL	**4,989**	4,665

11. PROFIT BEFORE TAX

Profit before tax is arrived at after charging (crediting) the following items:

(in RMB million)	**2012**	2011
Employee costs (a)	**17,470**	17,582
Depreciation of property and equipment *(note 27)*	**1,621**	1,485
Impairment loss on insurance receivables *(note 21)*	**236**	307
Impairment loss on other assets	**(26)**	(9)
Minimum lease payments under operating leases in respect of land and buildings	**706**	555
Amortisation of intangible assets *(note 28)*	**188**	192
Auditors' remuneration	**32**	24

(a) Employee costs

(in RMB million)	**2012**	2011
Employee costs (excluding directors' and supervisors' remuneration) *(note 12)*		
– Salaries, allowances and performance related bonuses	**15,961**	14,954
– Social insurance and housing fund	**1,503**	2,617
	17,464	17,571

12. DIRECTORS' AND SUPERVISORS' REMUNERATION

Directors' and supervisors' remuneration for the years 2012 and 2011, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

(in RMB '000)	**2012**	2011
Fees	**400**	267
Other emoluments:		
– Salaries, allowances and performance related bonuses	**3,895**	8,801
– Social insurance and housing fund	**1,946**	1,980
	6,241	11,048

Certain directors and supervisors are entitled to bonuses which are determined by a number of factors including the operating results of the Group.

The total compensation package for the Company's key management for the year ended 31 December 2012 has not yet been finalised in accordance with regulations of the PRC relevant authorities. The amount of the compensation not provided for is not expected to have significant impact to the Group's 2012 financial statements. The compensation of 2011 has been approved by the PRC relevant authorities.

(a) Independent non-executive directors

The fees paid to independent non-executive directors during 2012 and 2011 were as follows:

(in RMB '000)	**2012**	2011
Mr. Xiang Huaicheng	**–**	–
Mr. Lau Hon Chuen (i)	**–**	N/A
Mr. Du Jian (i)	**–**	N/A
Mr. Cai Weiguo	**200**	67
Mr. Xu Dingbo	**200**	200
	400	267

There were no other emoluments payable to the independent non-executive directors during the year (2011: Nil).

(i) Appointed as independent non-executive directors in 2012 fourth general meeting on 14 June 2012.

12. DIRECTORS' AND SUPERVISORS' REMUNERATION *(continued)*

(b) Chairman of the Board, directors and supervisors

(in RMB '000)	Year ended 31 December 2012 Salaries, allowances and performance related bonuses	Social insurance and housing fund	Total remuneration
Chairman of the Board:			
Mr. Wu Yan	704	354	1,058
Executive Directors:			
Mr. Ding Yunzhou	558	257	815
Mr. Wang Yincheng	701	337	1,038
Mr. Li Liangwen	701	400	1,101
Non-executive Directors:			
Mr. Cao Guangsheng	–	–	–
Mr. Liu Yeqiao	–	–	–
Mr. Qi Shaojun	–	–	–
Ms. Zhang Hanlin	–	–	–
Ms. Hu Donghui	–	–	–
Supervisors:			
Mr. Lin Fan	469	233	702
Mr. Xu Yongxian	411	178	589
Ms. Yao Bo	351	187	538
	3,895	1,946	5,841

12. DIRECTORS' AND SUPERVISORS' REMUNERATION *(continued)*

(b) Chairman of the Board, directors and supervisors *(continued)*

	Year ended 31 December 2011		
(in RMB '000)	Salaries, allowances and performance related bonuses	Social insurance and housing fund	Total remuneration
Chairman of the Board:			
Mr. Wu Yan	1,598	308	1,906
Executive Directors:			
Mr. Ding Yunzhou	1,422	254	1,676
Mr. Wang Yincheng	1,438	288	1,726
Mr. Li Liangwen	1,438	357	1,795
Non-executive Directors:			
Mr. Cao Guangsheng	–	–	–
Mr. Liu Yeqiao	–	–	–
Mr. Qi Shaojun	–	–	–
Ms. Hu Donghui	–	–	–
Supervisors:			
Mr. Zhou Shurui	1,438	272	1,710
Mr. Xu Yongxian	896	246	1,142
Ms. Yao Bo	571	255	826
	8,801	1,980	10,781

13. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals in the Company include three directors for the year ended 31 December 2011 and 2012. Details of the remuneration of the remaining highest paid individuals are set out below:

(in RMB '000)	**2012**	2011
Salaries, allowances, and performance related bonuses	**1,403**	2,876
Social insurance and housing fund	**833**	736
	2,236	3,612

The number of non-director/supervisors, highest paid individuals whose remuneration fell within the following bands is as follows:

	2012	2011
RMB1 to RMB500,000	**–**	–
RMB500,001 to RMB1,000,000	**–**	–
RMB1,000,001 to RMB1,500,000	**2**	–
RMB1,500,001 to RMB2,000,000	**–**	2
	2	2

14. INCOME TAX EXPENSE

(in RMB million)	**2012**	2011
Current income tax:		
Charge for the year	**3,122**	2,953
Under provision in prior years	**3**	33
Deferred income tax	**51**	(673)
TOTAL	**3,176**	2,313

In accordance with the relevant PRC income tax rules and regulations, the Company and Group's subsidiaries registered in the PRC are subject to corporate income tax ("CIT") at the statutory rate of 25% on their respective taxable income. Income taxes on taxable income elsewhere were calculated at the rates of tax prevailing in the countries/jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

14. INCOME TAX EXPENSE *(continued)*

PICC HK, registered in Hong Kong, was subject to a profits tax rate of 16.5% in 2012 (2011: 16.5%). Shanghai Xinhuawen Investment Limited Company, registered in Pudong, Shanghai, was subject to an income tax rate of 25% in 2012 (2011: 24%).

A reconciliation of the tax expense credit applicable to profit before tax using the CIT rate of 25% to the tax expense at the Group's effective tax rate is as follows:

(in RMB million)	**2012**	2011
Profit before tax	**13,320**	10,210
Tax at the statutory tax rate	**3,330**	2,553
Adjustments in respect of current tax of previous periods	**3**	33
Profits attributable to associates	**(143)**	(207)
Income not subject to tax	**(917)**	(808)
Tax adjustment for temporary taxable difference related to disposal of subsidiaries	**244**	–
Expenses not deductible for tax	**348**	298
Utilisation of tax losses	**(108)**	(25)
Effects on opening deferred tax of changes in tax rates	**–**	(4)
Unrecognised deductible temporary differences	**422**	482
Effects of different tax rates applied to subsidiaries	**(3)**	(9)
Tax charge at the Group's effective tax rate	**3,176**	2,313
Effective tax rate	**23.8%**	22.7%

15. EARNINGS PER SHARE

The calculation of basic earnings per share for the years 2012 and 2011 is based on the profit attributable to equity holders of the Company and the weighted average number of ordinary shares in issue during the year.

(in RMB million)	**2012**	2011
Net profit attributable to ordinary equity holders of the parent for the year	**6,832**	5,185
Weighted average number of ordinary shares (in million shares)	**34,973**	32,711
Basic earnings per share (in RMB)	**0.20**	0.16
Diluted earnings per share (in RMB)	**0.20**	0.16

No adjustment has been made to the basic earnings per share amounts presented for the years 2012 and 2011 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during 2012 and 2011.

16. OTHER COMPREHENSIVE INCOME

(in RMB million)	2012	2011
Available-for-sale investments:		
Gains/(losses) arising during the year	**2,855**	(13,336)
Less: Reclassification adjustments for gains included in the income statement		
– losses/(gains) on disposal	**483**	156
– impairment losses *(note 7(d))*	**4,141**	2,444
Income tax effect relating to available-for-sale investments *(note)*	**(510)**	876
	6,969	(9,860)
Cash flow hedging revaluation	**(100)**	286
Income tax effect relating to cash flow hedging revaluation	**25**	(71)
	(75)	215
Net gains on revaluation of properties and prepaid land premiums upon transfer to investment properties *(note 26)*	**235**	899
Income tax effect relating to revaluation of properties and prepaid land premiums upon transfer to investment properties	**(59)**	(225)
	176	674
Share of changes in associates' equity	**149**	(91)
Actuarial losses of a pension benefit obligation *(note 37(a))*	**(52)**	(118)
Foreign currency translation reserve	**–**	(27)
TOTAL	**7,167**	(9,207)
Attributable to:		
Equity holders of the parent	**5,522**	(6,995)
Non-controlling interests	**1,645**	(2,212)
TOTAL	**7,167**	(9,207)

Note: Income tax effect relating to available-for-sale investments for the year ended 31 December 2012 included the amount relating to available-for-sale investments that had been transferred to a disposal group classified as held for sale from 1 January 2012 to the disposal date, which was not included in note 29.

17. CASH AND CASH EQUIVALENTS

Group *(in RMB million)*	**31 December 2012**	31 December 2011
Cash on hand	**179**	1
Securities purchased under resale agreements with original maturity of less than three months	**2,435**	2,652
Demand deposits and deposits with banks and other financial institutions with original maturity of less than three months	**71,259**	52,680
TOTAL	**73,873**	55,333
Classification of cash and cash equivalents:		
Loans and receivables	**73,873**	55,333

Company *(in RMB million)*	**31 December 2012**	31 December 2011
Demand deposits	**22,325**	196
Classification of cash and cash equivalents:		
Loans and receivables	**22,325**	196

The carrying amounts disclosed above reasonably approximate to their fair values at the year end.

18. DERIVATIVE FINANCIAL INSTRUMENTS

	As at 31 December 2012		
(in RMB million)	**Nominal amount**	**Derivative financial assets**	**Derivative financial liabilities**
Interest rate swaps			
– Hedging instruments	**6,230**	**38**	**(3)**
– Non-hedging instruments	**500**	**35**	**–**
TOTAL	**6,730**	**73**	**(3)**

	As at 31 December 2011		
(in RMB million)	Nominal amount	Derivative financial assets	Derivative financial liabilities
Interest rate swaps			
– Hedging instruments	6,480	165	–
– Non-hedging instruments	1,180	19	–
TOTAL	7,660	184	–

The carrying amounts of interest rate swaps are the same as their fair value.

The Group is exposed to the variability of cash flows on financial assets which bear interest at a variable rate, and therefore uses interest rate swaps to manage its risks by receiving interest at a fixed rate from counterparties and paying interest at a variable rate.

The terms of the cash flow hedging and the terms of the hedged items are highly matched. Cash flow hedging relationships are assessed to be effective, and the amounts recognised in other comprehensive income are disclosed in note 16. Hedging instruments gains/losses transferred from other comprehensive income were not significant in the reporting period. There were no gains or losses transferred from other comprehensive income arising from ineffective cash flow hedges in 2011 and 2012.

19. DEBT SECURITIES

Group *(in RMB million)*	**31 December 2012**	31 December 2011
Government bonds	**20,860**	20,631
Corporate bonds	**69,920**	70,049
Bonds issued by other financial institutions	**126,589**	123,316
Total debt securities	**217,369**	213,996
Classification of debt securities:		
Fair value through profit or loss		
– held for trading, at fair value	**3,085**	2,081
Available-for-sale, at fair value	**95,125**	108,492
Held-to-maturity, at amortised cost	**119,159**	102,721
Loans and receivables, at amortised cost	**–**	702
Total debt securities	**217,369**	213,996
Listed	**22,707**	22,120
Unlisted	**194,662**	191,876
Total debt securities	**217,369**	213,996

Company *(in RMB million)*	**31 December 2012**	31 December 2011
Bonds issued by other financial institutions	**–**	538
Total debt securities	**–**	538
Classification of debt securities:		
Loans and receivables, at amortised cost	**–**	538
Total debt securities	**–**	538
Unlisted	**–**	538
Total debt securities	**–**	538

20. EQUITY SECURITIES

Group *(in RMB million)*	**31 December 2012**	31 December 2011
Investments, at fair value:		
Mutual funds	**44,859**	26,083
Shares	**48,620**	33,914
Investments, at cost:		
Shares	**1,629**	1,053
Trust scheme	**24,621**	10,000
Total equity securities	**119,729**	71,050
Classification of equity securities:		
Fair value through profit or loss		
– held for trading, at fair value	**6,834**	5,477
Available-for-sale		
– at fair value	**86,645**	54,520
– at cost less impairment	**26,250**	11,053
Total equity securities	**119,729**	71,050
Listed	**49,138**	37,551
Unlisted	**70,591**	33,499
Total equity securities	**119,729**	71,050

20. EQUITY SECURITIES *(continued)*

Company *(in RMB million)*	**31 December 2012**	31 December 2011
Investments, at fair value:		
Mutual funds	**322**	–
Shares	**2,096**	153
Investments, at cost:		
Shares	**268**	268
Total equity securities	**2,686**	421
Classification of equity securities:		
Fair value through profit or loss		
– held for trading, at fair value	**20**	–
Available-for-sale		
– at fair value	**2,398**	153
– at cost less impairment	**268**	268
Total equity securities	**2,686**	421
Listed	**2,096**	153
Unlisted	**590**	268
Total equity securities	**2,686**	421

The fair values are based on quoted prices in active markets or bid prices quoted by mutual fund management companies.

There was a significant or prolonged decline in the market value of certain listed equity investments during the year. The directors consider that such a decline indicates that the listed equity investments have been impaired and an impairment loss of RMB4,145 million (2011: RMB2,439 million), which included a reclassification from other comprehensive income of RMB4,145 million (2011: RMB2,439 million), has been recognised in the income statement for the year.

20. EQUITY SECURITIES *(continued)*

Unlisted equity investments and a trust scheme with a carrying amount of RMB26,250 million as at 31 December 2012 (2011: RMB11,053 million) were carried at cost less impairment. Unlisted equity investments were stated at cost less impairment because their fair value cannot be measured reliably. The Group does not intend to dispose of them in the near future.

On 1 April 2012, the Company signed an agreement with China Credit Trust Company Limited ("China Credit Trust") to transfer the right of receiving returns on the equity interest in Bank of Hangzhou to a trust scheme held in the custody of China Credit Trust. The Company did not derecognise the equity interest with carrying amount of RMB260 million in its financial statements as it was still undertaking the risks relating the equity interest in Bank of Hangzhou. The said equity interests were restricted for sale as at 31 December 2012.

21. INSURANCE RECEIVABLES

Group *(in RMB million)*	**31 December 2012**	31 December 2011
Insurance receivables	**25,719**	25,890
Less: Impairment provision on insurance receivables	**(2,414)**	(2,453)
TOTAL	**23,305**	23,437

The movements of provision for impairment of insurance receivables are as follows:

Group *(in RMB million)*	**31 December 2012**	31 December 2011
At 1 January	**2,453**	2,177
Impairment losses recognised *(note 11)*	**236**	307
Amount written off as uncollectible	**(275)**	(31)
	2,414	2,453

21. INSURANCE RECEIVABLES *(continued)*

An aged analysis of insurance receivables as at the end of the reporting period, based on the payment due date and net of provision, is as follows:

Group *(in RMB million)*	**31 December 2012**	31 December 2011
Within 3 months	**20,720**	20,289
3 to 6 months	**2,110**	2,309
6 to 12 months	**933**	1,160
1 to 2 years	**407**	436
Over 2 years	**1,549**	1,696
TOTAL	**25,719**	25,890
Less: Impairment provision	**(2,414)**	(2,453)
Total insurance receivables	**23,305**	23,437

22. REINSURANCE ASSETS

Group *(in RMB million)*	**31 December 2012**	31 December 2011
Reinsurers' share of		
Unearned premium reserves	**9,462**	12,283
Claim reserves	**14,342**	12,914
Long-term life insurance reserves	**71**	26
TOTAL	**23,875**	25,223

23. TERM DEPOSITS

The original maturities of the term deposits are as follows:

Group *(in RMB million)*	**31 December 2012**	31 December 2011
More than 3 months to 1 year	**4,442**	708
1 to 2 years	**100**	1,278
2 to 3 years	**1,062**	1,042
More than 3 years	**114,511**	91,688
TOTAL	**120,115**	94,716

The carrying amounts of the term deposits approximate to the fair values. The term deposits are deposited with creditworthy banks with no recent history of default. Management considered the credit risks in respect of cash and bank deposits with financial institutions to be relatively minimal as each counterparty has a high credit rating or is a large PRC state-owned bank with no history of default.

24. INVESTMENTS IN SUBSIDIARIES

Company *(in RMB million)*	**31 December 2012**	31 December 2011
Unlisted investments, at cost	**33,525**	32,469
Shares listed in Hong Kong, at cost	**28,486**	28,486
TOTAL	**62,011**	60,955
Market value of shares listed in Hong Kong	**74,444**	71,963

As at 31 December 2012, the Company had direct and indirect interests in its subsidiaries, all of which are private limited liability companies or, if incorporated outside Hong Kong, have substantially similar characteristics to a private company incorporated in Hong Kong, except for PICC Property and Casualty Company Limited, which is listed on the Main Board of the The Stock Exchange of Hong Kong Limited (the “Hong Kong Stock Exchange”).

24. INVESTMENTS IN SUBSIDIARIES *(continued)*

The particulars of the principal subsidiaries as of 31 December 2012 are set out below:

Name	Place of incorporation/ registration	Nominal value of registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities/ place of operation
PICC Property and Casualty Company Limited ("PICC P&C") (a)	Beijing	RMB 12,255,980,000	68.98%	–	P&C insurance, China
PICC Asset Management Company Limited ("PICC AMC")	Shanghai	RMB 800,000,000	81.00%	–	Management of insurance investments, China
PICC Health Insurance Company Limited ("PICC Health") (b)	Beijing	RMB 4,325,124,033	89.11%	2.56%	Health insurance, China
PICC Life Insurance Company Limited ("PICC Life")	Beijing	RMB 20,133,405,131	71.08%	8.92%	Life insurance, China
PICC Investment Holding	Beijing	RMB 50,000,000	100.00%	–	Investment holding, China
The People's Insurance Company of China (Hong Kong) Limited ("PICC HK")	Hong Kong	HKD 200,000,000	75.00%	–	P&C insurance, Hong Kong
Zhongsheng International Insurance Brokers Company Limited (Zhongsheng International) (c)	Beijing	RMB 71,305,800	88.08%	–	Insurance and reinsurance brokerage, China
PICC Services (Europe) Ltd.	London	GBP 500,000	100.00%	–	Claim handling agency, London
Beijing No.88 West Chang'an Avenue Development Company Limited ("No.88 Development Company")	Beijing	RMB 500,596,647	1.00%	99.00%	Estate services and property management, China

24. INVESTMENTS IN SUBSIDIARIES *(continued)*

Only principal subsidiaries that have material impact on the consolidated financial statements are listed above, as in the opinion of the Directors, the other subsidiaries did not materially affect the Group's net financial position and operating results, and were therefore not separately disclosed.

(a) PICC P&C was a company listed on the Hong Kong Stock Exchange.

(b) During the year, the Company and PICC Investment Holding contributed RMB1,000 million and RMB29 million to PICC Health respectively, at a price of RMB1.45 per share. After the above capital injections, the Company holds an 89.11% direct equity interest in PICC Health, as well as a 2.56% indirect equity interest through PICC Investment Holding. The above two capital injections had been approved by the CIRC and the changes of registered capital were completed on 27 September 2012 and 6 January 2013 respectively.

(c) The Company entered into a capital injection agreement with Zhongsheng International in February 2012 to transfer the 52.50% equity interests in Prime Insurance Brokers Company Limited and the 55.01% equity interests in China Insurance Brokers Company Limited as a capital injection to Zhongsheng International. The registered capital of Zhongsheng International was increased to RMB71 million after the capital injection without proportionate contribution from non-controlling shareholders. As a result, the Company's investment in Zhongsheng International increased by RMB39 million and the Company's equity interest in it increased from 75.10% to 82.54%. The change of registered capital was completed on 13 June 2012. On 14 December 2012, the Company injected RMB50 million to Zhongsheng International without proportionate contribution from non-controlling shareholders. After the capital injection, the Company holds an 88.08% equity interest in Zhongsheng International. The above capital injection had been approved by the CIRC and the change of registered capital was completed on 6 February 2013.

25. INVESTMENTS IN ASSOCIATES

(a) The Group's and the Company's investments in the principal associates as at 31 December 2012 and 2011 are as follows:

Group *(in RMB million)*	**31 December 2012**	31 December 2011
Unlisted investments, carrying amount	**3,361**	2,951

Company *(in RMB million)*	**31 December 2012**	31 December 2011
Unlisted investments, carrying amount	**3,301**	2,891

25. INVESTMENTS IN ASSOCIATES *(continued)*

(b) Particulars of the principal associates are as follows:

Associates	Place of registration	Principal activities	Percentage of ownership interest attributable to the Group As at 31 December 2012	2011
China Credit Trust	Beijing	Trust business	**32.92%**	32.92%
Dacheng Fund Management Company Limited ("Dacheng Fund")	Shenzhen	Fund management	–	48.00%
Huawen Media	Haikou	Media, consultation and information integration	–	19.65%
Xinhuangpu Real Estate	Shanghai	Real estate development	–	13.48%

No associates above are audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

The Group's shareholdings in Dacheng Fund, Huawen Media and Xinhuangpu Real Estate are held through a wholly-owned subsidiary of the Company. The investments in Dacheng Fund, Huawen Media and Xinhuangpu Real Estate were transferred to a disposal group classified as held for sale as at 31 December 2011 which had been disposed of as at 31 May 2012.

(c) Dividends received from associates during 2012 and 2011 are as follows:

(in RMB million)	31 December 2012	31 December 2011
Associates		
China Credit Trust	**121**	202
Dacheng Fund	–	135
Huawen Media	–	5
Xinhuangpu Real Estate	–	13
Other associates	–	7
TOTAL	**121**	362

25. INVESTMENTS IN ASSOCIATES *(continued)*

(d) Financial information of the Group's principal associate:

Associates *(in RMB million)*	Assets	Liabilities	Revenue	Net profit
	As at 31 December 2012		Year ended 31 December 2012	
China Credit Trust	**11,740**	**1,643**	**2,266**	**1,619**
	As at 31 December 2011		Year ended 31 December 2011	
China Credit Trust	10,285	1,473	2,115	1,445

26. INVESTMENT PROPERTIES

Group *(in RMB million)*	**31 December 2012**	31 December 2011
Beginning of year	**7,529**	4,390
Additions	**56**	5
Transfers from property, plant and equipment *(note 27)*	**122**	2,311
Transfer from intangible assets *(note 28)*	**31**	78
Gains on revaluation of properties upon transfer from property, plant and equipment *(note 16)*	**190**	737
Gains on revaluation of properties upon transfer from intangible assets *(note 16)*	**45**	162
Increase in fair value of investment properties *(note 7(c))*	**915**	688
Transfer to property and equipment *(note 27)*	**(297)**	(371)
Transfer to intangible assets *(note 28)*	**(102)**	(188)
Disposals	**(39)**	(28)
Disposal of subsidiaries	**–**	(255)
End of year	**8,450**	7,529

26. INVESTMENT PROPERTIES *(continued)*

Company *(in RMB million)*	**31 December 2012**
Beginning of year	–
Additions	101
Transfer from property and equipment *(note 27)*	566
Transfer from intangible assets *(note 28)*	87
Increase in fair value of investment properties	321
End of year	1,075

The Group was still in the process of applying for title certificates for investment properties with a carrying value of RMB3,337 million as at 31 December 2012 (2011: RMB2,608 million). The Directors are of the opinion that the Group has ownership of those properties.

There were no pledged investment properties as at 31 December 2012 and 2011.

The Group's investment properties were revalued as at the end of the reporting period by independent professional valuers. The investment properties held by PICC P&C and PICC Life were revalued by DTZ DEBENHAM TIE LEUNG Limited and Beijing Zhong Heng Zheng Yuan Appraisals Company Limited, respectively. The investment properties held by PICC Investment Holding and the Company were revalued by China Enterprise Appraisals Company Limited. Valuations were based on either: (i) the direct comparison approach assuming sale of each of these properties in its existing state by making reference to comparable sales transactions as available in the relevant market; or (ii) capitalisation of net rental income derived from the existing tenancies with allowance for the reversionary income potential of the properties, using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

The Group's investment properties mainly pertain to properties located in Mainland China and are mainly held under medium-term lease.

27. PROPERTY AND EQUIPMENT

Group *(in RMB million)*	Buildings	Office equipment, furniture and fixtures	Motor vehicles	Construction in progress	Total
Cost					
As at 1 January 2012	19,238	5,069	1,726	1,027	27,060
Additions	161	1,639	277	2,337	4,414
Transfer of construction in progress	189	1	–	(190)	–
Transfer from investment properties *(note 26)*	297	–	–	–	297
Transfer to investment properties *(note 26)*	(196)	–	–	–	(196)
Transfer to intangible assets	–	–	–	(5)	(5)
Disposals	(169)	(222)	(228)	(1)	(620)
As at 31 December 2012	19,520	6,487	1,775	3,168	30,950
Accumulated depreciation					
As at 1 January 2012	3,904	2,334	841	–	7,079
Depreciation	516	853	252	–	1,621
Transfer to investment properties *(note 26)*	(74)	–	–	–	(74)
Disposals	(60)	(211)	(214)	–	(485)
As at 31 December 2012	4,286	2,976	879	–	8,141
Impairment losses					
As at 1 January 2012	885	–	–	36	921
Disposals	(60)	–	–	–	(60)
Provision	6	–	–	–	6
As at 31 December 2012	831	–	–	36	867
Net carrying amount					
As at 31 December 2012	14,403	3,511	896	3,132	21,942
As at 1 January 2012	14,449	2,735	885	991	19,060

27. PROPERTY AND EQUIPMENT *(continued)*

Group *(in RMB million)*	Buildings	Office equipment, furniture and fixtures	Motor vehicles	Construction in progress	Total
Cost					
As at 1 January 2011	18,323	3,923	2,076	1,812	26,134
Additions	213	1,832	268	2,285	4,598
Transfer of construction in progress	2,997	68	–	(3,065)	–
Transfer from investment properties *(note 26)*	371	–	–	–	371
Transfer to investment properties *(note 26)*	(2,409)	–	–	–	(2,409)
Disposals of subsidiaries	(12)	(13)	(8)	–	(33)
Disposals	(189)	(617)	(584)	(5)	(1,395)
Transfer to assets of a disposal group classified as held for sale	(56)	(124)	(26)	–	(206)
As at 31 December 2011	19,238	5,069	1,726	1,027	27,060
Accumulated depreciation					
As at 1 January 2011	3,282	2,337	1,138	–	6,757
Depreciation	728	502	255	–	1,485
Transfer to investment properties *(note 26)*	(70)	–	–	–	(70)
Disposals of subsidiaries	(1)	(5)	(4)	–	(10)
Disposals	(20)	(475)	(531)	–	(1,026)
Transfer to assets of a disposal group classified as held for sale	(15)	(25)	(17)	–	(57)
As at 31 December 2011	3,904	2,334	841	–	7,079
Impairment losses					
As at 1 January 2011	972	–	1	38	1,011
Transfer to investment properties *(note 26)*	(28)	–	–	–	(28)
Disposals	(59)	–	–	(2)	(61)
Transfer to assets of a disposal group classified as held for sale	–	–	(1)	–	(1)
As at 31 December 2011	885	–	–	36	921
Net carrying amount					
As at 31 December 2011	14,449	2,735	885	991	19,060
As at 1 January 2011	14,069	1,586	937	1,774	18,366

27. PROPERTY AND EQUIPMENT *(continued)*

The Group was still in the process of applying for title certificates for its buildings with a carrying value of RMB1,667 million as at 31 December 2012 (2011: RMB1,180 million). The Directors are of the opinion that the Group has ownership of the buildings.

The carrying amount of fully depreciated property and equipment that are still in use was RMB3,354 million as at 31 December 2012 (2011: RMB3,270 million).

The Group had no material property and equipment, which were idle or at disposal, as at 31 December 2012 and 2011.

The buildings of a carrying amount of RMB3,571 million have been pledged to a bank for a loan as at 31 December 2012 (2011: RMB3,614 million).

There were no significant property and equipment under operating leases as at the end of 2012 and 2011.

The Group had property and equipment held for sale as at 31 December 2011.

Company *(in RMB million)*	Buildings	Office equipment, furniture and fixtures	Motor vehicles	Construction in progress	Total
Cost					
As at 1 January 2012	108	136	21	549	814
Additions	–	34	2	17	53
Transfer to investment property *(note 26)*	–	–	–	(566)	(566)
Disposals	–	–	(2)	–	(2)
As at 31 December 2012	108	170	21	–	299
Accumulated depreciation					
As at 1 January 2012	21	26	8	–	55
Additions	1	33	2	–	36
Disposals	–	–	(1)	–	(1)
As at 31 December 2012	22	59	9	–	90
Net carrying amount					
As at 31 December 2012	86	111	12	–	209
As at 1 January 2012	87	110	13	549	759

27. PROPERTY AND EQUIPMENT *(continued)*

Company *(in RMB million)*	Buildings	Office equipment, furniture and fixtures	Motor vehicles	Construction in progress	Total
Cost					
As at 1 January 2011	108	44	20	477	649
Additions	–	93	1	72	166
Disposals	–	(1)	–	–	(1)
As at 31 December 2011	108	136	21	549	814
Accumulated depreciation					
As at 1 January 2011	17	20	7	–	44
Additions	4	7	1	–	12
Disposals	–	(1)	–	–	(1)
As at 31 December 2011	21	26	8	–	55
Net carrying amount					
As at 31 December 2011	87	110	13	549	759
As at 1 January 2011	91	24	13	477	605

The Company had no idle property and equipment as at 31 December 2012 and 2011.

The carrying amount of fully depreciated property and equipment that are still in use was RMB8 million as at 31 December 2012 (2011: RMB7 million).

The Company had no significant property and equipment to be disposed of as at 31 December 2012 and 2011.

There was no building pledged to secure bank loans for the Company as at 31 December 2012 and 2011.

28. INTANGIBLE ASSETS

Group *(in RMB million)*	**Prepaid land premiums**	**Software and others**	**Total**
Cost			
As at 1 January 2012	4,548	498	5,046
Additions	121	200	321
Transfer from construction in progress	–	5	5
Transfer to investment properties *(note 26)*	(44)	–	(44)
Transfer from investment properties *(note 26)*	102	–	102
Disposals	(5)	(31)	(36)
As at 31 December 2012	4,722	672	5,394
Accumulated amortisation			
As at 1 January 2012	856	216	1,072
Amortisation	123	65	188
Transfer to investment properties *(note 26)*	(13)	–	(13)
Disposals	(1)	(7)	(8)
As at 31 December 2012	965	274	1,239
Impairment losses			
As at 1 January 2012	41	–	41
Impairment	9	–	9
Disposals	(1)	–	(1)
As at 31 December 2012	49	–	49
Net carrying value			
As at 31 December 2012	3,708	398	4,106
As at 1 January 2012	3,651	282	3,933

28. INTANGIBLE ASSETS *(continued)*

Group (in RMB million)	Service concession arrangements	Prepaid land premiums	Software and others	Total
Cost				
As at 1 January 2011	2,007	4,353	397	6,757
Additions	–	169	134	303
Transfer to investment properties *(note 26)*	–	(127)	–	(127)
Transfer from investment properties *(note 26)*	–	188	–	188
Disposals	–	(35)	(29)	(64)
Transfer to assets of a disposal group classified as held for sale	(2,007)	–	(4)	(2,011)
As at 31 December 2011	–	4,548	498	5,046
Accumulated amortisation				
As at 1 January 2011	52	786	187	1,025
Amortisation	16	136	40	192
Transfer to investment properties *(note 26)*	–	(49)	–	(49)
Disposals	–	(17)	(10)	(27)
Transfer to assets of a disposal group classified as held for sale	(68)	–	(1)	(69)
As at 31 December 2011	–	856	216	1,072
Impairment losses				
As at 1 January 2011	124	49	–	173
Disposals	–	(8)	–	(8)
Transfer to assets of a disposal group classified as held for sale	(124)	–	–	(124)
As at 31 December 2011	–	41	–	41
Net carrying amount				
As at 31 December 2011	–	3,651	282	3,933
As at 1 January 2011	1,831	3,518	210	5,559

Service concession arrangements represent the operating rights of Huihang Highway which pertain to a subsidiary of the Group, which were transferred to assets of a disposal group classified as held for sale as at 31 December 2011 which had been disposed of as at 31 May 2012.

28. INTANGIBLE ASSETS *(continued)*

Company *(in RMB million)*	**Prepaid land premiums**	**Software and others**	**Total**
Cost			
As at 1 January 2012	**177**	**11**	**188**
Additions	**–**	**12**	**12**
Transfer to investment properties *(note 26)*	**(95)**	**–**	**(95)**
As at 31 December 2012	**82**	**23**	**105**
Accumulated amortisation			
As at 1 January 2012	**13**	**1**	**14**
Amortisation	**3**	**3**	**6**
Transfer to investment properties *(note 26)*	**(8)**	**–**	**(8)**
As at 31 December 2012	**8**	**4**	**12**
Net carrying value			
As at 31 December 2012	**74**	**19**	**93**
As at 1 January 2012	**164**	**10**	**174**

Company *(in RMB million)*	Prepaid land premiums	Software and others	Total
Cost			
As at 1 January 2011	179	1	180
Additions	–	10	10
Disposals	(2)	–	(2)
As at 31 December 2011	177	11	188
Accumulated amortisation			
As at 1 January 2011	10	–	10
Amortisation	3	1	4
As at 31 December 2011	13	1	14
Net carrying value			
As at 31 December 2011	164	10	174
As at 1 January 2011	169	1	170

The Group's and the Company's prepaid land premium pertain to lands located in Mainland China and are mainly held under medium-term leases.

29. DEFERRED TAX ASSETS AND LIABILITIES

(in RMB million)	31 December 2012	31 December 2011
Deferred tax assets	2,215	2,826
Deferred tax liabilities	(98)	(36)
	2,117	2,790

The movements of deferred tax assets and liabilities during 2012 and 2011 are as follows:

	2012			
Group (in RMB million)	As at 1 January	Credited/ (charged) to the income statement during the year	Credited/ (charged) to equity during the year	As at 31 December
Provision for impairment losses	1,252	169	–	1,421
Employee benefits payable	838	(21)	–	817
Revaluation of available-for-sale financial assets	1,815	–	(585)	1,230
Fair value adjustments to financial assets carried at fair value through profit or loss	173	(152)	–	21
Cash flow hedging	(47)	(356)	25	(378)
Fair value adjustments arising from investment properties	(1,027)	(229)	(59)	(1,315)
Insurance contract liabilities	(450)	15	–	(435)
Others	236	520	–	756
Net value	2,790	(54)	(619)	2,117

29. DEFERRED TAX ASSETS AND LIABILITIES *(continued)*

Group (in RMB million)	2011 As at 1 January	Disposal of subsidiaries	Credited/ (charged) to the income statement during the year	Credited/ (charged) to equity during the year	Transfer to assets/ liabilities of a disposal group classified as held for sale	As at 31 December
Provision for impairment losses	805	(6)	558	–	(105)	1,252
Employee benefits payable	652	(3)	198	–	(9)	838
Revaluation of available-for-sale financial assets	888	–	–	876	51	1,815
Fair value adjustments to financial assets carried at fair value through profit or loss	17	–	157	–	(1)	173
Cash flow hedging	19	–	5	(71)	–	(47)
Fair value adjustments arising from investment properties	(630)	–	(172)	(225)	–	(1,027)
Fair value adjustments arising from business combinations	(982)	–	37	–	945	–
Insurance contract liabilities	(259)	–	(191)	–	–	(450)
Others	169	(2)	81	–	(12)	236
Net value	679	(11)	673	580	869	2,790

Unrecognised deductible temporary differences and deductible tax losses arising from entities in the Group, which do not have sufficient future taxable profits available for realisation, amounted to RMB7,508 million as at 31 December 2012 (2011: RMB12,144 million), of which deductible tax losses amounted to RMB4,726 million as at 31 December 2012 (2011: RMB4,109 million).

The expiry dates of unused tax losses are as follows:

Group (in RMB million)	**31 December 2012**	31 December 2011
Expiry dates:		
31 December 2012	**–**	44
31 December 2013	**980**	1,344
31 December 2014	**626**	658
31 December 2015	**784**	784
31 December 2016	**1,279**	1,279
31 December 2017	**1,057**	–
TOTAL	**4,726**	4,109

30. OTHER ASSETS

The net values of the items of other assets are as follows:

Group *(in RMB million)*	**31 December 2012**	31 December 2011
Non-listed debt securities (a)	**39,110**	22,902
Other receivables (b)	**1,081**	1,262
Amount due from the Ministry of Finance (the "MOF") (c)	**707**	707
Interest receivables	**8,109**	6,567
Dividend receivables	**294**	294
Others	**13,056**	10,938
TOTAL	**62,357**	42,670

Company *(in RMB million)*	**31 December 2012**	31 December 2011
Other receivables (d)	**612**	1,052
Amount due from the MOF (c)	**707**	707
Interest receivables	**3**	10
Dividend receivables	**294**	294
Others	**37**	3
TOTAL	**1,653**	2,066

(a) Non-listed debt securities

(in RMB million)	**31 December 2012**	31 December 2011
Subordinated debts held	**1,200**	1,220
Long-term debt investment scheme	**37,910**	21,682
TOTAL	**39,110**	22,902

30. OTHER ASSETS *(continued)*

(b) Other receivables

(in RMB million)	31 December 2012	31 December 2011
Trade and other receivables (1)	180	141
Right pursuant to an agreement (2)	–	588
Prepayments and deposits	901	533
TOTAL	1,081	1,262

(1) Certain receivables from related parties and receivables from non-insurance related subsidiaries were transferred to assets of a disposal group classified as held for sale at 31 December 2011 and were disposed of as at 31 May 2012.

(2) The amount of RMB588 million at 31 December 2011 was a consideration paid for a right to a 1.96% economic interest in the issued share capital of a securities company. It represents the right to receive dividends, and proceeds from the disposal of the equity interests of that securities company, and the right to register as a shareholder. PICC P&C obtained the said right pursuant to an agreement dated 27 December 2006 under the restructuring scheme of another securities company.

As at 31 October 2012, PICC P&C signed an equity transfer agreement with the controlling shareholder of the securities company and had been registered as a shareholder of that securities company before the end of 2012. Therefore, the carrying amount of this right was reclassified to equity securities.

(c) The balance included an amount of RMB707 million as at 31 December 2012 (2011: RMB707 million), which is recoverable from the MOF as a result of the Group's assumption of a post-employment benefit obligation as further described in note 40(b)(4).

(d) On 1 April 2012, the Company signed an agreement with China Credit Trust to transfer certain assets to a trust scheme held in the custody of China Credit Trust, which includes the receivable from No. 88 Development at an amount of RMB406 million. The Company signed a repurchase commitment letter to undertake the risks relating to the transferred assets. The Company did not derecognise the said assets in its financial statements. The said receivable was restricted for sale as at 31 December 2012.

31. PLEDGED ASSETS AND RESTRICTED DEPOSITS

(1) Cash at banks and deposits with restricted rights or ownership

The restrictions on the Group's cash at banks and term deposits with original maturity of more than 3 months are the cash at banks amounting to RMB16 million as at 31 December 2012 (2011: RMB154 million) and the term deposits amounting to RMB749 million as at 31 December 2012 (2011: RMB526 million), of which RMB749 million as at 31 December 2012 (2011: RMB678 million) were separately deposited in a special account which are required and monitored by the local finance bureaus and were used only for catastrophe claim.

There were restrictions on the deposits of the satellite insurance fund, of which the current accounts amounted to RMB0.05 million as at 31 December 2012 (2011: RMB0.05 million), and the related term deposits amounted to RMB115 million as at 31 December 2012 (2011: RMB112 million). As set out in note 2.4(31), the satellite insurance fund must be deposited in a special account or be used only for the purchase of government bonds.

(2) Pledged real estate property of No. 88 Development Company

No. 88 Development Company pledged its property located on No. 88 Xichang'an Street with a carrying amount of RMB3,571 million as at 31 December 2012 (2011: RMB3,598 million) to China Construction Bank for a loan of RMB362 million as at 31 December 2012 (2011: RMB264 million).

32. SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

Group *(in RMB million)*	**31 December 2012**	31 December 2011
Securities – bonds		
Stock exchange	**4,954**	8,518
Inter-bank market	**66,336**	45,562
TOTAL	**71,290**	54,080

33. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

Group *(in RMB million)*	**31 December 2012**	31 December 2011
Short-term borrowings	**–**	20
Long-term borrowings		
– Due more than 5 years	**362**	264
TOTAL	**362**	284

Maturity profile of the bank borrowings is disclosed in note 42(b)(2).

Details of the assets pledged for bank borrowings are disclosed in note 31.

34. SUBORDINATED DEBTS

Group

(in RMB million)	**2012**	2011
Beginning of year	**34,670**	29,474
Additions	**–**	4,983
Amortisation	**185**	213
End of year	**34,855**	34,670

Company

(in RMB million)	**2012**	2011
Beginning of year	**9,708**	9,708
Additions	**–**	–
End of year	**9,708**	9,708

Details of the Group's subordinated debts as at 31 December 2012 are as follows:

Issuer	Issue date	Term	Interest rate	Principal *(in RMB million)*
The Company	2-Apr-2008	10 years	Year 1-5: 6.05%; year 6-10: 8.85%	7,808
The Company	9-Jan-2009	10 years	Year 1-5: 3.99%; year 6-10: 6.99%	1,900
PICC P&C	19-Dec-2006	10 years	Year 1-5: 4.08%; year 6-10: 6.08%	3,000
PICC P&C	28-Sep-2009	10 years	Year 1-5: 4.30%; year 6-10: 6.30%	5,000
PICC P&C	30-Jun-2010	10 years	Year 1-5: 4.60%; year 6-10: 6.60%	6,000
PICC P&C	3-Jun-2011	10 years	Year 1-5: 5.38%; year 6-10: 7.38%	5,000
PICC Life	23-Sep-2008	10 years	Year 1-5: 5.66%; year 6-10: 7.66%	2,250
PICC Life	19-Jul-2010	10 years	Year 1-5: 4.60%; year 6-10: 6.60%	2,500
PICC Health	20-Aug-2009	10 years	Year 1-5: 4.38%; year 6-10: 6.88%	800
Total				34,258

With the consent of the CIRC and proper notice to the counterparties, the Group has an option to redeem the subordinated debts at the end of the fifth year from the date of issue, with the redeem notice sent 1 month in advance.

35. INSURANCE CONTRACT LIABILITIES

Group (in RMB million)	31 December 2012 Insurance contract liabilities	Reinsurers' share	Net
Long-term life insurance contracts (a)	227,206	71	227,135
Short-term life insurance contracts (b)			
– Claim reserves	3,377	1,292	2,085
– Unearned premium reserves	1,262	179	1,083
Non-life insurance contracts (c)			
– Claim reserves	84,079	13,050	71,029
– Unearned premium reserves	75,653	9,283	66,370
Total insurance contract liabilities	391,577	23,875	367,702

Group (in RMB million)	31 December 2011 Insurance contract liabilities	Reinsurers' share	Net
Long-term life insurance contracts (a)	177,089	26	177,063
Short-term life insurance contracts (b)			
– Claim reserves	2,163	934	1,229
– Unearned premium reserves	1,121	188	933
Non-life insurance contracts (c)			
– Claim reserves	76,286	11,980	64,306
– Unearned premium reserves	69,622	12,095	57,527
Total insurance contract liabilities	326,281	25,223	301,058

35. INSURANCE CONTRACT LIABILITIES *(continued)*

(a) Long-term life insurance contracts

Group *(in RMB million)*	Insurance contract liabilities	Reinsurers' share	Net
At 1 January 2011	128,819	10	128,809
Additions	67,839	28	67,811
Payments	(12,467)	(12)	(12,455)
Surrenders	(7,102)	–	(7,102)
At 31 December 2011	177,089	26	177,063
Additions	65,343	58	65,285
Payments	(1,953)	(13)	(1,940)
Surrenders	(13,273)	–	(13,273)
At 31 December 2012	227,206	71	227,135

(b) Short-term life insurance contracts

(1) Claim reserve

Group *(in RMB million)*	Insurance contract liabilities	Reinsurers' share	Net
At 1 January 2011	1,206	406	800
Claims incurred	3,751	1,512	2,239
Claims paid	(2,794)	(984)	(1,810)
At 31 December 2011	2,163	934	1,229
Claims incurred	5,140	1,914	3,226
Claims paid	(3,926)	(1,556)	(2,370)
At 31 December 2012	3,377	1,292	2,085

35. INSURANCE CONTRACT LIABILITIES *(continued)*

(b) Short-term life insurance contracts *(continued)*

(2) Unearned premiums reserves

Group *(in RMB million)*	Insurance contract liabilities	Reinsurers' share	Net
At 1 January 2011	909	161	748
Premiums written	5,462	1,870	3,592
Premiums earned	(5,250)	(1,843)	(3,407)
At 31 December 2011	1,121	188	933
Premiums written	6,991	2,215	4,776
Premiums earned	(6,850)	(2,224)	(4,626)
At 31 December 2012	1,262	179	1,083

(c) Non-life insurance contracts

(1) Claim reserve

Group *(in RMB million)*	Insurance contract liabilities	Reinsurers' share	Net
At 1 January 2011	62,939	9,258	53,681
Claims incurred	101,984	14,141	87,843
Claims paid	(88,637)	(11,419)	(77,218)
At 31 December 2011	76,286	11,980	64,306
Claims incurred	117,013	17,984	99,029
Claims paid	(109,220)	(16,914)	(92,306)
At 31 December 2012	84,079	13,050	71,029

35. INSURANCE CONTRACT LIABILITIES *(continued)*

(c) Non-life insurance contracts *(continued)*

(2) Unearned premium reserves

Group *(in RMB million)*	Insurance contract liabilities	Reinsurers' share	Net
At 1 January 2011	60,222	6,009	54,213
Premiums written	174,089	37,219	136,870
Premiums earned	(164,689)	(31,133)	(133,556)
At 31 December 2011	69,622	12,095	57,527
Premiums written	193,586	28,972	164,614
Premiums earned	(187,555)	(31,784)	(155,771)
At 31 December 2012	75,653	9,283	66,370

36. INVESTMENT CONTRACT LIABILITIES FOR POLICYHOLDERS

Group *(in RMB million)*	**31 December 2012**	31 December 2011
Interest-bearing deposits	**48,390**	47,184
Non-interest-bearing deposits	**1,922**	1,972
TOTAL	**50,312**	49,156

The movements in investment contract liabilities for policyholders are as follows:

Group *(in RMB million)*	**31 December 2012**	31 December 2011
Beginning of year	**49,156**	41,253
Deposits received after deducting fees	**19,670**	20,570
Deposits withdrawn	**(20,442)**	(14,427)
Interest credited *(note 10)*	**1,928**	1,760
End of year	**50,312**	49,156

37. PENSION BENEFIT OBLIGATION

(a) The movements in the present value of early retirement and retirement benefits are shown below:

Group and Company *(in RMB million)*	**31 December 2012**	31 December 2011
Beginning of year	**3,056**	3,086
Interest cost on benefit obligation *(note 10)*	**108**	119
Actuarial losses *(note 16)*	**52**	118
Benefits paid	**(264)**	(267)
End of year	**2,952**	3,056

(b) The discount rates and the principal actuarial assumptions for the above obligations are as follows:

Group and Company *(in RMB million)*	**31 December 2012**	31 December 2011
Discount rates:		
Early retirement benefits	**3.20%**	2.90%
Retirement benefits	**3.60%**	3.50%
Supplementary medical benefits	**4.00%**	3.90%
Average annual benefit increase:		
Early retirement benefits	**2.50%**	2.50%
Medical expenses	**8.00%**	8.00%

In order to reimburse the Company for this pension benefit obligation, a receivable of RMB2,847 million was recognised on the restructuring and reorganisation of the Company, as described in note 40(b)(4).

38. OTHER LIABILITIES

Group *(in RMB million)*	**31 December 2012**	31 December 2011
Claims payable	**2,544**	2,910
Premium received in advance	**8,524**	8,422
Salaries and welfare payable	**5,374**	5,828
Handling charges and commission payable	**3,194**	2,890
Due to reinsurers	**17,833**	27,707
Insurance guarantee fund	**620**	590
Interest payable (a)	**896**	901
Other payables (b)	**5,480**	3,490
Provision for contingent liabilities (c)	**23**	37
Others	**3,813**	4,412
TOTAL	**48,301**	57,187

Company *(in RMB million)*	**31 December 2012**	31 December 2011
Salaries and welfare payable	**165**	145
Interests payable	**420**	420
Other payables (d)	**2,262**	505
Provision for contingent liabilities	**16**	33
Others	**147**	123
TOTAL	**3,010**	1,226

38. OTHER LIABILITIES *(continued)*

(a) Interest payable

Group *(in RMB million)*	**31 December 2012**	31 December 2011
Subordinated debts	**879**	880
Securities sold under agreements to repurchase	**17**	21
TOTAL	**896**	901

(b) Other payables

Group *(in RMB million)*	**31 December 2012**	31 December 2011
Payables to related parties	**19**	10
Payables to non-insurance related subsidiaries	**171**	140
Coinsurance premium payables	**949**	736
Surrender payables	**305**	345
Others	**4,036**	2,259
TOTAL	**5,480**	3,490

(c) The Group made provisions for certain guarantees and litigation and adjusted the amount of provisions according to the development of the litigation during 2012 and 2011.

The movements of the provision for contingent liabilities during the year are set out below:

Group *(in RMB million)*	**2012**	2011
Beginning of year	**37**	34
Additions	**2**	5
Release	**(16)**	(2)
End of year	**23**	37

(d) As at 31 December 2012, the other payables of the Company mainly contain the pension benefit payable, amounts due to subsidiaries and payable of underwriting commissions of the initial public offering.

39. SHARE CAPITAL

As at 31 December 2012, the share capital amounted to RMB42,424 million with a nominal value of RMB1.00 per share, and the registered capital remained unchanged as RMB34,491 million.

Group and Company	31 December 2012	31 December 2011
Issued and fully paid ordinary shares of RMB1 each (in million)		
Domestic shares	33,698	34,491
H shares	8,726	–
	42,424	34,491
Share capital (in RMB million)		
Domestic shares	33,698	34,491
H shares	8,726	–
	42,424	34,491

The Company was converted into a joint stock company in 2009 and as part of the conversion, the registered capital was converted into 30,600 million shares of a par value of RMB1.00 each to its original shareholder, the MOF. Upon conversion, RMB15,100 million of the former entity's reserves was capitalised by way of equity transfer including the transfer of capital reserve of RMB18,330 million to share capital and the elimination of accumulated losses of RMB3,230 million. Further details of transfer of capital reserve are disclosed in note 40(b)(3) and note 40(b)(4).

In the general meeting of shareholders on 14 June 2011, it was resolved that the National Council for Social Security Fund, PRC (the "SSF") subscribed shares of the Company at a consideration of RMB10 billion, representing 3,891 million shares at the subscription price of RMB2.57 each. The consideration received net of related expense of RMB5 million was recorded in share capital and share premium amount. The amount of RMB10 billion was received in full by the Company from the SSF as at 17 June 2011. After the capital injection, the share capital of the Company amounted to RMB34,491 million.

In 2012, the Company completed its initial public offering of overseas-listed foreign shares ("H shares") and was listed on the Main Board of the Hong Kong Stock Exchange on 7 December 2012. In this offering, the Company totally offered 7,932,940,000 H shares (including over-allotment of 1,034,731,000 H shares) with a nominal value of RMB1.00 per share each and an issuance price of HKD3.48 per share. This public offering had raised a total amount of RMB22,410 million. As at 21 December 2012, the consideration received net of issue expenses was RMB21,754 million, of which RMB7,933 million was recorded in share capital and RMB13,821 million was recorded in share premiums.

39. SHARE CAPITAL *(continued)*

According to the "Provisional Administrative Measures on Reduction of State-owned Shares to Raise Social Security Fund" (Guo Fa [2001] No. 22) issued by the State Council and the related regulatory approvals, 793,294,000 domestic shares held by the state-owned shareholders were converted into H shares during the initial public offering of the Company.

As at 31 December 2012, the number of shares and the share capital were increased to 42,424 million shares and RMB42,424 million, respectively. The CIRC's approval and the change of registered capital have not been completed as of the date of the approval of the financial statements.

40. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statements of changes in equity of the financial statements.

(a) General risk reserve

In accordance with the relevant regulations, the general risk reserve should be set aside to cover catastrophic or other losses as incurred by companies operating in the insurance businesses. The Group's respective entities would need to make appropriations to such reserves based on their respective year-end profit or risk assets as determined based on applicable financial regulations in the PRC in their annual financial statements. This reserve is not available for profit distribution or transfer to capital.

(b) Principal items of other capital reserve were summarised as follows:

Group *(in RMB million)*	**31 December 2012**	31 December 2011
Deemed disposal gain (1)	**683**	683
Effect of acquisition of non-controlling interests (2)	**(477)**	(399)
Transfer to share capital (3)	**(17,942)**	(17,942)
Compensation for post-employment benefit obligation (4) *(note 37)*	**2,847**	2,847
Others	**1,457**	1,393
TOTAL	**(13,432)**	(13,418)

(1) The amount is derived from the dilution in the Company's equity interest in PICC P&C upon its public listing in 2003.

(2) The effect of acquisition of non-controlling interests includes a direct acquisition of non-controlling interests amounted to RMB70 million as at 31 December 2012 (2011: RMB70 million), and the capital injection without proportionate contribution from non-controlling shareholders of RMB407 million as at 31 December 2012 (2011: RMB329 million).

40. RESERVES *(continued)*

(b) Principal items of other capital reserve were summarised as follows: *(continued)*

(3) As at 30 June 2009, the Company obtained MOF's approval and conducted the capital structure adjustment based on the assets appraisal as at 30 June 2008, which was provided by China Enterprise Appraisals Co., Ltd.. As a result of the capital structure adjustment, the amount of RMB17,942 million was transferred from other reserves to share capital.

(4) In 2009, the Company recognised an amount recoverable from the MOF of RMB2,847 million as compensation for the Group's assumption of post-employment benefit obligation, which was estimated using actuarial methods. The amount recoverable was recognised as a capital contribution from the MOF and was credited to other reserves.

(c) The movements in reserves and retained profits of the Company are set out below:

Company *(in RMB million)*	**Available-for-sale investment revaluation reserve**	**Share premium account**	**Surplus reserve fund**	**Other reserves**	**Retained profits**	**Total**
At 1 January 2012	12	6,104	136	11,814	1,665	19,731
Total comprehensive income for the year	65	–	–	(3)	1,760	1,822
Transfer from retained profits	–	–	181	–	(181)	–
Issue of shares	–	13,821	–	–	–	13,821
At 31 December 2012	77	19,925	317	11,811	3,244	35,374

Company *(in RMB million)*	Available-for-sale investment revaluation reserve	Share premium account	Surplus reserve fund	Other reserves	Retained profits	Total
At 1 January 2011	28	–	–	11,836	556	12,420
Total comprehensive income for the year	(16)	–	–	(22)	1,245	1,207
Transfer from retained profits	–	–	136	–	(136)	–
Issue of shares	–	6,104	–	–	–	6,104
At 31 December 2011	12	6,104	136	11,814	1,665	19,731

41. RISK MANAGEMENT FRAMEWORK

(a) Governance framework

The primary objective of the Group's risk and financial management framework is to protect the Group's shareholders from events that hinder the sustainable achievement of financial performance objectives, including failing to exploit opportunities. Key management recognises the critical importance of having efficient and effective risk management systems in place.

(b) Capital management approach

The Group seeks to optimise the structure and sources of capital to ensure that it consistently maximises returns to the shareholders and policyholders.

The Group's approach to managing capital involves managing assets, liabilities and risks in a coordinated way, assessing shortfalls between reported and required capital levels (by each regulated entity) on a regular basis and taking appropriate actions to influence the capital position of the Group in light of changes in economic conditions and risk characteristics.

The primary source of capital used by the Group is equity shareholders' funds and borrowings. The Group also, in a more efficient way, utilises sources of capital such as reinsurance in addition to more traditional sources of funding.

The Group has had no significant changes in its policies and processes to its capital structure during 2012.

The solvency margin ratios of the Group and its principal subsidiaries are listed below:

	31 December 2012			31 December 2011		
(in RMB million)	**Regulatory capital held**	**Minimum regulatory capital**	**Solvency margin ratio**	Regulatory capital held	Minimum regulatory capital	Solvency margin ratio
PICC P&C	**43,260**	**24,771**	**175%**	37,768	20,523	184%
PICC Life	**13,955**	**10,773**	**130%**	11,497	8,678	132%
PICC Health	**2,050**	**1,263**	**162%**	1,075	1,003	107%

The solvency margin ratio, which is calculated based on relevant regulations promulgated by the CIRC, is an indicator of the overall solvency position of insurance companies.

(c) Regulatory framework

Regulators are primarily interested in protecting the rights of policyholders and monitor them closely to ensure that the Group is satisfactorily managing affairs for their benefit. At the same time, regulators are also interested in ensuring that the Group maintains an appropriate solvency position to meet unforeseen liabilities arising from economic shocks or natural disasters.

42. RISK MANAGEMENT OBJECTIVES AND POLICIES

(a) Insurance risk

(1) Insurance risk types

The risk under an insurance contract is the possibility of occurrence of insured events and uncertainty of the amount and timing of the resulting claims. The principal risk the Group faces under such contracts is that the actual claims and benefit payments exceed the carrying amount of insurance liabilities. This could occur due to any of the following factors:

Occurrence risk – the possibility that the number of insured events will differ from that expected.

Severity risk – the possibility that the costs of the events will differ from those expected.

Development risk – the possibility that changes may occur in the amount of a policyholder's obligation at the end of the contract period.

The variability of risks is improved by diversification of risk of loss to a large portfolio of insurance contracts as a more diversified portfolio is less likely to be affected across the board by change in any subset of the portfolio. The variability of risks is also improved by careful selection and implementation of underwriting strategy and guidelines.

The Group has also ceded its insurance business to reinsurers at a certain proportion, and has set up different retained rates for all products. According to the reinsurance contracts, reinsurers' share of claim reserves shall be provided based on the methods used to provide for gross insurance liabilities. Although the Group has reinsurance arrangements, its direct obligations to its policyholders are not relieved and thus a credit exposure exists with respect to outward reinsurance, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements. The Group has diversified the reinsurance business to several reinsurers to avoid relying on a single reinsurer, and the operation of the Company does not rely on any single reinsurance contract.

The business of the Group includes life insurance contracts and non-life insurance contracts. For accident insurance contracts, the significant factors that could increase the overall frequency of claims are epidemics, widespread changes in lifestyle and natural disasters, resulting in earlier or more claims than expected. For long-term life contracts, the most significant factors are continued improvement in medical science and social conditions that would increase longevity. These risks currently do not vary significantly in relation to the location of the risk insured by the Group whilst undue concentration by amounts could have an impact on the severity of benefit payments on a portfolio basis.

There would be no significant mitigating terms and conditions that reduce the insured risk accepted for contracts with fixed and guaranteed benefits and fixed future premiums. However, for contracts with discretionary participation features, the participating nature of these contracts results in a significant portion of the insurance risk being shared with the insured parties.

Insurance risk is also affected by the policyholders' rights to terminate the contracts, to pay reduced premiums, refuse to pay premiums or to avail annuity conversion rights. Therefore, the resultant insurance risk is subject to policyholders' behaviour and decisions.

42. RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(a) Insurance risk *(continued)*

(1) Insurance risk types (continued)

For non-life insurance contracts, claims are often affected by many factors such as climate changes, natural disasters, calamities, and terrorist activities. Claims of certain provinces in the PRC are often affected by natural disasters including flooding, earthquakes and typhoons. Therefore, an undue concentration of risk units in these areas may have an impact on the severity of claim payments on a portfolio basis. The Group has achieved geographical diversification by accepting risks in different provinces of the PRC (including Hong Kong).

(2) Insurance risk concentration

The Group's concentration of insurance risk before and after reinsurance, measured by geographical turnover and net written premiums of property insurance, is as follows:

	Year ended 31 December			
	2012		2011	
(in RMB million)	**Gross**	**Net**	Gross	Net
Coastal and developed provinces/cities (including Hong Kong)	**85,069**	**71,098**	75,515	58,411
North-eastern China	**13,619**	**11,466**	12,823	10,105
North China	**29,694**	**25,941**	27,895	22,605
Central China	**23,549**	**20,247**	20,508	16,172
Western China	**41,655**	**35,862**	37,348	29,577
Total premiums written from property insurance contracts	**193,586**	**164,614**	174,089	136,870

The geographical distribution of the sales of the Group's life or health products does not have any significant impact on the insurance risk.

42. RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(a) Insurance risk *(continued)*

(3) Reinsurance

The Group limits its exposure to losses from insurance operations mainly through participation in reinsurance arrangements. The majority of the business ceded is placed on the quota share basis and the surplus basis with retention limits varying by product lines. Certain reinsurance arrangements contain profit commission policy, float commission policy and loss participating limitation policy. Meanwhile, catastrophic reinsurance is used to limit the Group's exposure to certain severe disasters.

Even though the Group may have reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to reinsurance ceded, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements.

(4) Key assumptions and sensitivity analysis

Long-term life insurance contracts

Sensitivity analysis

The analysis below is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the pre-tax impact on profit and equity. The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities, but to demonstrate the impact due to changes in assumptions, assumptions have to be changed on an individual basis. It should be noted that movements in these assumptions are non-linear. Sensitivity information will also vary according to the current economic assumptions, mainly due to the impact of changes to both the intrinsic cost and time value of options and guarantees. When options and guarantees exist, they are the main reasons for the asymmetry of sensitivities. The impacts to future dividend distributions to policyholders are considered in determining the impact of changes in individual assumptions.

The Group has adopted the below assumptions ranges in the analysis of hypothetical changes. The adoption of these assumptions is determined by reference to the historical experience data since the commencement of business of PICC Life and PICC Health, product mix and current operating conditions. The analysis on the Group's life and health insurance was conducted by mainly adopting the CIRC requirements for gross premium provision sensitivity test and follows risk management analysis framework in relation to life and health insurance business. And considering the different features of product mix in life insurance and health insurance, the Group has adopted various ranges of changes in assumptions for sensitivity analysis.

42. RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(a) Insurance risk *(continued)*

(4) Key assumptions and sensitivity analysis (continued)

Long-term life insurance contracts (continued)

Sensitivity analysis *(continued)*

Long-term life and long-term health insurance contracts held by PICC Life:

(in RMB million)	Change in assumptions	Pre-tax impact on profit and equity Year ended 31 December 2012	2011
Discount rate	+50bp	**1,358**	848
Discount rate	-50bp	**(1,436)**	(921)
Mortality/morbidity	+10%	**(72)**	(64)
Mortality/morbidity	-10%	**74**	59
Lapse and surrenders rate	+25%	**150**	108
Lapse and surrenders rate	-25%	**(165)**	(128)
Expenses	110%	**(81)**	(114)
Expenses	90%	**81**	114

Long-term life and long-term health insurance contracts held by PICC Health:

(in RMB million)	Change in assumptions	Pre-tax impact on profit and equity Year ended 31 December 2012	2011
Discount rate	+25bp	**9**	5
Discount rate	-25bp	**(9)**	(5)
Mortality/morbidity	+10%	**(3)**	(2)
Mortality/morbidity	-10%	**3**	2
Lapse and surrenders rate	+10%	**(1)**	(1)
Lapse and surrenders rate	-10%	**1**	–
Expenses	110%	**2**	1
Expenses	90%	**(2)**	(1)

The above analysis does not take into account the mitigation effect from asset-liability management and possible actions taken by management in view of these changes. Any change in discount rate is assumed to be a parallel shift in yield curve.

The Group did not disclose the claims development for life insurance contracts as the uncertainty about the amount and timing of claims payments is typically resolved within one year.

42. RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(a) Insurance risk *(continued)*

(4) Key assumptions and sensitivity analysis (continued)

Non-life insurance and short-term life insurance contracts

Key assumptions

The principal assumption underlying the estimates is the Group's past claims development experience. Judgement is used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates.

The range of reasonable estimates of loss and loss adjustment expense reserves, projected using different statistical techniques and various key assumptions, represents different views on the timing of settlements, changes in premium rates and the underwriting controls over ultimate losses.

The sensitivity of certain variables like legislative change and uncertainty in the estimation process is not possible to quantify with any degree of confidence. Furthermore, because of the time lag between the occurrence of a claim and its subsequent notification and eventual settlement, the loss and loss adjustment reserves are not quantifiable with certainty at the end of 2012 and 2011.

If the average cost per claim or the number of claims changes, the loss and loss adjustment expenses reserves will change proportionately. When the other assumptions remain unchanged, if the future average cost per claim increases by 5%, the claim reserves of the Group will increase by approximately RMB3,656 million as at 31 December 2012 (2011: RMB3,277 million).

Given the claims of short-term life insurance are usually settled in 1 year, therefore the analysis of the development of claims was not disclosed in the table below.

42. RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(a) Insurance risk *(continued)*

(4) Key assumptions and sensitivity analysis (continued)

Non-life insurance and short-term life insurance contracts (continued)

Key assumptions *(continued)*

The following analysis shows the development of claims over a period of time on a gross basis:

	Accident year – gross					
	Year ended 31 December					
(in RMB million)	2008	2009	2010	2011	2012	Total
Estimated cumulative claims:						
At the end of current year	72,126	73,661	86,419	98,932	113,746	
One year later	73,791	74,581	85,537	98,061	–	
Two years later	73,650	74,190	85,241	–	–	
Three years later	73,815	73,953	–	–	–	
Four years later	73,542	–	–	–	–	
Estimated cumulative claims	73,542	73,953	85,241	98,061	113,746	444,543
Cumulative claims paid	72,378	71,298	74,391	78,870	69,802	366,739
Sub-total as at 31 December 2012						77,804
Prior year adjustments, unallocated loss adjustment expenses, discount and risk margin						6,275
Unpaid claim expenses for PICC Life, gross						573
Unpaid claim expenses for PICC Health, gross						2,804
Unpaid claim expenses, gross						87,456

42. RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(a) Insurance risk *(continued)*

(4) Key assumptions and sensitivity analysis (continued)

Non-life insurance and short-term life insurance contracts (continued)

The following analysis shows the development of claims over a period of time on a net basis:

	Accident year – net					
	Year ended 31 December					
(in RMB million)	2008	2009	2010	2011	**2012**	Total
Estimated cumulative claims:						
At the end of current year	57,542	58,536	77,623	83,966	**95,126**	
One year later	59,276	59,137	77,118	83,307	–	
Two years later	59,084	59,594	76,667	–	–	
Three years later	59,047	59,293	–	–	–	
Four years later	58,893	–	–	–	–	
Estimated cumulative claims	58,893	59,293	76,667	83,307	**95,126**	373,286
Cumulative claims paid	57,969	57,465	67,297	67,423	**57,869**	308,023
Sub-total as at 31 December 2012						65,263
Prior year adjustments, unallocated loss adjustment expenses, discount and risk margin						5,767
Unpaid claim expenses for PICC Life, net						573
Unpaid claim expenses for PICC Health, net						1,511
Unpaid claim expenses, net						73,114

The ultimate liabilities will vary as a result of subsequent developments. Differences resulting from the re-assessment of the ultimate liabilities are recognised in subsequent years.

42. RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(b) Financial risks

(1) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation.

The Group is exposed to credit risks primarily associated with its deposit arrangements with commercial banks, loans and advances to customers, investments in debt securities, trust scheme arrangements with trust companies and insurance receivables and reinsurance arrangements with reinsurers. Majority of the Group's financial assets are bond investments which include government bonds, financial bonds, corporate bonds with high credit ratings and term deposits in state-owned commercial banks. Therefore, the Group is exposed to relatively low credit risks for these financial assets.

The Group's credit risk associated with insurance receivables mainly arises from non-life insurance business for which the Group only issues insurance policies on credit to corporate customers or to individuals who purchase certain policies through insurance intermediaries. A policyholder usually has a maximum credit period of three months but a longer period can be granted on a discretionary basis. For large corporate customers and certain multi-year policies, payments by instalments are usually arranged. One of the major performance indicators is the ability to collect premiums receivable on a timely basis.

Reinsurance of the Group is mainly placed with reinsurers with Standard & Poor's ratings of A– (or ratings of an equal level given by other international rating institutions such as A.M. Best, Fitch, Moody's) or above except for state-owned reinsurance companies. Management performs regular assessment of creditworthiness of reinsurers to update reinsurance purchase strategies and ascertain suitable allowances for impairment of reinsurance assets.

The Group analyses the industry, enterprise management, financial factors, prospects for development and so on in both quantitative analysis and qualitative analysis. The Group mitigates credit risk by using a variety of methods including utilising credit control models, undertaking credit analysis on potential investments, imposing aggregate counterparty exposure limits, and increasing the diversification of fixed income investment portfolios.

The principal reinsurers of the Group are mainly state-owned reinsurance companies or other reinsurance companies with credit rating of A or above assessed by A.M. Best.

42. RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(b) Financial risks *(continued)*

(1) Credit risk (continued)

Credit exposure

The table below shows the maximum exposure to credit risk without taking into account collateral for the components of the consolidated statement of financial position:

(in RMB million)	**31 December 2012**	31 December 2011
Cash and cash equivalents	**73,694**	55,332
Derivative financial assets	**73**	184
Debt securities	**217,369**	213,996
Equity securities		
– Trust scheme	**24,621**	10,000
Term deposits	**120,115**	94,716
Restricted statutory deposits	**7,880**	7,635
Insurance receivables	**23,305**	23,437
Other financial assets	**59,474**	40,172
Total credit risk exposure	**526,531**	445,472

42. RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(b) Financial risks *(continued)*

(1) Credit risk (continued)

Ageing analysis of financial assets

	As at 31 December 2012						
		Past due but not impaired financial assets					
(in RMB million)	Not past due	Within 30 days	31 to 90 days	Over 90 days	Subtotal	Past due and impaired	Total
Cash and cash equivalents	73,694	–	–	–	–	–	73,694
Derivative financial assets	73	–	–	–	–	–	73
Debt securities	217,369	–	–	–	–	–	217,369
Equity securities							
– Trust scheme	24,621	–	–	–	–	–	24,621
Term deposits	120,115	–	–	–	–	–	120,115
Restricted statutory deposits	7,880	–	–	–	–	–	7,880
Insurance receivables	13,906	907	4,952	2,010	7,869	3,944	25,719
Other financial assets	59,467	4	3	1	8	1,236	60,711
Total	517,125	911	4,955	2,011	7,877	5,180	530,182
Less: impairment losses	–	–	–	–	–	(3,651)	(3,651)
Net	517,125	911	4,955	2,011	7,877	1,529	526,531

42. RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(b) Financial risks *(continued)*

(1) Credit risk (continued)

Ageing analysis of financial assets (continued)

	As at 31 December 2011						
		Past due but not impaired financial assets					
(in RMB million)	Not past due	Within 30 days	31 to 90 days	Over 90 days	Subtotal	Past due and impaired	Total
Cash and cash equivalents	55,332	–	–	–	–	–	55,332
Derivative financial assets	184	–	–	–	–	–	184
Debt securities	213,996	–	–	–	–	–	213,996
Equity securities							
– Trust scheme	10,000	–	–	–	–	–	10,000
Term deposits	94,716	–	–	–	–	–	94,716
Restricted statutory deposits	7,635	–	–	–	–	–	7,635
Insurance receivables	14,453	1,421	4,596	1,949	7,966	3,471	25,890
Other financial assets	37,610	–	5	1,401	1,406	2,345	41,361
Total	433,926	1,421	4,601	3,350	9,372	5,816	449,114
Less: impairment losses	(5)	–	–	–	–	(3,637)	(3,642)
Net	433,921	1,421	4,601	3,350	9,372	2,179	445,472

42. RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(b) Financial risks *(continued)*

(2) Liquidity risk

Liquidity risk is the risk of not having access to sufficient funds or being unable to liquidate a position in a timely manner at a reasonable price to meet the Group's obligations as they become due.

The Group is exposed to liquidity risk on insurance policies that permit surrender, withdrawal or other forms of early termination. The Group manages liquidity risk by matching to the extent possible the duration of its investment assets with the duration of its insurance policies and to ensure that the Group is able to meet its payment obligations and fund its lending and investment operations on a timely basis.

The Group held demand and term deposits with original maturity of no more than three months which accounted for 11% of total assets as at 31 December 2012 (2011: 9%). Management closely monitored the increase of the non-current assets.

It is unusual for an enterprise primarily transacting insurance business to predict the requirements of funding with absolute certainty, as the theory of probability is applied on insurance contracts to ascertain the likely provision and the period when such liabilities will require settlement. The amounts and maturity periods of these insurance liabilities are thus based on management's best estimate based on statistical techniques and past experience.

42. RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(b) Financial risks *(continued)*

(2) Liquidity risk (continued)

The table below summarises the remaining contractual maturity profile of the financial assets and liabilities of the Group based on undiscounted contractual cash flows.

	As at 31 December 2012						
(in RMB million)	Past due/ repayable on demand	Within 3 months	3 to 12 months	1 to 5 years	More than 5 years	No maturity date	Total
Cash and cash equivalents	51,808	22,158	–	–	–	–	73,966
Derivative financial assets	–	7	17	64	–	–	88
Debt securities	–	1,022	16,946	77,384	233,032	–	328,384
Equity securities	–	–	–	24,622	–	93,478	118,100
Term deposits	–	2,569	7,991	130,827	1,124	–	142,511
Restricted statutory deposits	–	931	240	7,436	–	–	8,607
Insurance receivables	9,143	10,078	1,060	2,997	27	–	23,305
Other financial assets	896	7,738	8,294	24,795	30,676	420	72,819
Total assets	61,847	44,503	34,548	268,125	264,859	93,898	767,780
Due to banks and other financial institutions	362	–	–	–	–	–	362
Subordinated debts	–	75	9,399	10,753	25,621	–	45,848
Securities sold under agreements to repurchase	–	71,326	–	–	–	–	71,326
Derivative financial liabilities	–	–	2	1	–	–	3
Investment contract liabilities for policyholders	44,841	1,316	1,366	536	2,264	–	50,323
Policyholder dividends payable	6	1,970	3,510	–	–	–	5,486
Pension benefit obligation	–	52	155	792	3,764	–	4,763
Other financial liabilities	9,550	20,640	5,250	646	93	–	36,179
Total liabilities	54,759	95,379	19,682	12,728	31,742	–	214,290

42. RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(b) Financial risks *(continued)*

(2) Liquidity risk (continued)

	As at 31 December 2011						
(in RMB million)	Past due/ repayable on demand	Within 3 months	3 to 12 months	1 to 5 years	More than 5 years	No maturity date	Total
Cash and cash equivalents	51,531	3,830	–	–	–	–	55,361
Derivative financial assets	–	8	1	189	5	–	203
Debt securities	–	1,833	9,600	88,799	221,450	–	321,682
Equity securities	–	–	–	–	10,000	59,997	69,997
Term deposits	–	897	5,615	99,971	8,854	–	115,337
Restricted statutory deposits	–	305	1,545	5,860	260	–	7,970
Insurance receivables	8,698	9,799	1,960	2,971	9	–	23,437
Other financial assets	868	5,126	12,090	12,669	16,171	619	47,543
Total assets	61,097	21,798	30,811	210,459	256,749	60,616	641,530
Due to banks and other financial institutions	–	–	37	107	591	–	735
Subordinated debts	–	82	1,958	18,756	27,949	–	48,745
Securities sold under agreements to repurchase	–	54,114	–	–	–	–	54,114
Investment contract liabilities for policyholders	36,837	974	1,670	469	9,261	–	49,211
Policyholder dividends payable	–	888	2,237	–	–	–	3,125
Pension benefit obligation	–	46	138	796	3,924	–	4,904
Other financial liabilities	12,725	23,445	7,439	571	65	27	44,272
Total liabilities	49,562	79,549	13,479	20,699	41,790	27	205,106

42. RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(b) Financial risks *(continued)*

(3) Market risk

Market risk is the risk that the fair value or future cash flow of a financial instrument will fluctuate because of changes in foreign exchange rates (currency risk), market interest rates (interest rate risk) and market prices (price risk).

The Group uses multiple methods managing market risk, including using sensitive analysis, Value-at-Risk ("VaR"), stress test, scenario analysis and other quantitative models to analyse market risks; mitigating market risk through a diversified investment portfolio; implementing investment risk budget management, setting an acceptable risk tolerance level according to development goals, making investment risk budget and tracking the risk control results dynamically to maintain market risk exposure within an acceptable level.

Foreign currency risk

Currency risk is the risk that the fair value of future cash flow of a financial instrument will fluctuate because of changes in foreign exchange rates.

42. RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(b) Financial risks *(continued)*

(3) Market risk (continued)

Foreign currency risk (continued)

The Group's principal operations and transactions are conducted in RMB and its exposure to foreign exchange risk arises primarily with respect to the United States dollar ("USD") and the Hong Kong dollar ("HKD"). The table below summarises the Group's assets and liabilities by major currency, expressed in the RMB equivalent:

31 December 2012 *(in RMB million)*	RMB	HKD	USD	Others	Total
Cash and cash equivalents	50,278	22,396	1,180	19	73,873
Derivative financial assets	73	–	–	–	73
Debt securities	216,168	–	1,201	–	217,369
Equity securities	116,899	1,139	62	–	118,100
Term deposits	117,129	–	2,986	–	120,115
Restricted statutory deposits	7,880	–	–	–	7,880
Insurance receivables	17,802	39	5,458	6	23,305
Other financial assets	58,863	36	574	1	59,474
Total assets	585,092	23,610	11,461	26	620,189
Due to banks and other financial institutions	360	–	2	–	362
Subordinated debts	34,855	–	–	–	34,855
Securities sold under agreements to repurchase	71,290	–	–	–	71,290
Pension benefit obligation	2,952	–	–	–	2,952
Investment contract liabilities for policyholders	50,312	–	–	–	50,312
Policyholder dividends payable	5,486	–	–	–	5,486
Other financial liabilities	30,560	76	5,528	15	36,179
Total liabilities	195,815	76	5,530	15	201,436

42. RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(b) Financial risks *(continued)*

(3) Market risk (continued)

Foreign currency risk (continued)

31 December 2011 *(in RMB million)*	RMB	HKD	USD	Others	Total
Cash and cash equivalents	50,962	1,854	2,492	25	55,333
Derivative financial assets	184	–	–	–	184
Debt securities	213,554	–	442	–	213,996
Equity securities	68,878	569	550	–	69,997
Term deposits	91,576	–	3,140	–	94,716
Restricted statutory deposits	7,635	–	–	–	7,635
Insurance receivables	18,735	123	4,567	12	23,437
Other financial assets	38,573	159	1,416	24	40,172
Total assets	490,097	2,705	12,607	61	505,470
Due to banks and other financial institutions	284	–	–	–	284
Subordinated debts	34,670	–	–	–	34,670
Securities sold under agreements to repurchase	54,080	–	–	–	54,080
Pension benefit obligation	3,056	–	–	–	3,056
Investment contract liabilities for policyholders	49,156	–	–	–	49,156
Policyholder dividends payable	3,125	–	–	–	3,125
Other financial liabilities	39,108	234	5,202	25	44,569
Total liabilities	183,479	234	5,202	25	188,940

42. RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(b) Financial risks *(continued)*

(3) Market risk (continued)

Foreign currency risk (continued)

Sensitivity analysis

The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on profit before tax and equity due to changes in the fair value of currency sensitive monetary assets and liabilities. The correlation of variables will have a significant effect in determining the ultimate impact on market risk, but to demonstrate the impact due to changes in variables, variables have to be changed on an individual basis. It should be noted that movements in these variables are non-linear.

Exchange rate of other currencies to RMB *(in RMB million)*	**31 December 2012** Pre-tax impact on profit	Pre-tax impact on equity
+5%	**1,393**	**1,474**
-5%	**(1,393)**	**(1,474)**

Exchange rate of other currencies to RMB *(in RMB million)*	31 December 2011 Pre-tax impact on profit	Pre-tax impact on equity
+5%	449	510
-5%	(449)	(510)

The method used for deriving sensitivity information and significant variables did not change from the previous year.

42. RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(b) Financial risks *(continued)*

(3) Market risk (continued)

Interest rate risk

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Floating rate instruments expose the Group to cash flow interest risk, whereas fixed interest rate instruments expose the Group to fair value interest risk.

Based on asset liability matching gap analysis, the Group implements sensitive analysis and stress tests to monitor and to evaluate interest rate risk regularly. The Group manages interest rate risk by monitoring the average duration and expiry dates as well as adjusting composition of portfolio.

The Group uses the VaR methodology to measure the expected maximum loss in respect of interest rate risk over a holding period of 10 trading days at a confidence level of 99% for bond investments measured at fair value and subordinated debt investments measured at amortised cost.

	As at 31 December	
(in RMB million)	**2012**	2011
Interest rate VaR	**331**	1,161

Price risk

Price risk is the risk that the fair value of future cash flow of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Group's price risk exposure mainly relates to the stock and fund investments whose values will fluctuate as a result of changes in market prices.

The Group's price risk policy requires setting and managing investment objectives. Subject to laws and regulatory policies, the Group manages price risk by diversification of investments, setting limits for investments in different securities, etc.

The Group uses VaR methodology to measure the expected maximum loss in respect of equity price risk for stock and fund investments measured at fair value over a holding period of 10 trading days at a confidence level of 99%.

The VaR methodology quantifies the potential loss under the assumption of normal market conditions only, and therefore when extreme market events occur, the potential loss could be underestimated. VaR also uses historical data to forecast future price returns, which could differ substantially from the past. Moreover, the use of a 10-day holding period assumes that all positions in the portfolio can be liquidated or hedged in 10 business days. The said assumption may not be correct in reality, especially in a market which lacks liquidity.

42. RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(b) Financial risks *(continued)*

(3) Market risk (continued)

Price risk (continued)

(in RMB million)	As at 31 December 2012	2011
Equity price VaR	**8,271**	4,963

43. FAIR VALUE AND FAIR VALUE HIERARCHY

The Group's financial assets mainly include: cash and cash equivalents, derivative financial assets, debt securities, equity securities, term deposits, restricted statutory deposits, insurance receivables and other financial assets.

The Group's financial liabilities mainly include: assets sold under agreements to repurchase, derivative financial liabilities, amounts due to banks and other financial institutions, subordinated debts, pension benefit obligation, investment contract liabilities for policyholders, policyholders dividends payable and other financial liabilities.

The fair values of the financial assets and liabilities refer to an amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values.

The fair values of cash and cash equivalents, insurance receivables and other financial liabilities approximate to their carrying amounts largely due to the short-term maturities or re-pricing regularly according to the interest rate regulated by the People's Bank of China or the market interest rate on the re-pricing date.

The fair values of unlisted held-to-maturity securities, term deposits, loans and receivables of other assets, amounts due to banks and debt payable are estimated by discounting future cash flows using rates currently available for debts on similar terms, with similar credit risk and remaining maturities.

The fair values of listed financial instruments are derived from quoted market prices in active markets, if available.

The Group enters into interest rate swap contracts with various counterparties, principally financial institutions with investment grade credit ratings. The most frequently applied valuation techniques for interest rate swaps include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates, interest rate curves and forward rate curves of the underlying commodity. The carrying amounts of interest rate swaps equal to their fair values. In 2012 and 2011, the marked to market value of derivative asset position is net of a credit valuation adjustment attributable to derivative counterparty default risk. The changes in counterparty credit risk had no material effect on the hedge effectiveness assessment for derivatives designated in hedge relationship and other financial instruments recognised at fair value.

43. FAIR VALUE AND FAIR VALUE HIERARCHY *(continued)*

Fair value of financial assets and liabilities not carried at fair value

The following table summarises the carrying values and the fair values of held-to-maturity financial assets, loans and receivables and subordinated debts, which are not carried at fair value.

(in RMB million)	**As at 31 December 2012**	
Financial assets:	**Carrying amounts**	**Fair value**
Held-to-maturity financial assets	**119,159**	**117,299**
Loans and receivables	**39,110**	**39,270**
Financial liabilities:		
Subordinated debts	**34,855**	**34,229**

(in RMB million)	As at 31 December 2011	
Financial assets:	Carrying amounts	Fair value
Held-to-maturity financial assets	102,721	102,383
Loans and receivables	22,902	23,793
Financial liabilities:		
Subordinated debts	34,670	34,525

Determination of fair value and fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair values of financial instruments:

Level 1: fair value measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: fair value measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are market observable, either directly or indirectly; and

Level 3: fair value measured based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs).

43. FAIR VALUE AND FAIR VALUE HIERARCHY *(continued)*

Determination of fair value and fair value hierarchy *(continued)*

As at the end of 2012 and 2011, the Group held the following financial instruments measured at fair value:

	As at 31 December 2012			
(in RMB million)	**Level 1**	**Level 2**	**Level 3**	**Total**
Derivative financial assets	**–**	**73**	**–**	**73**
Derivative financial liabilities	**–**	**(3)**	**–**	**(3)**
Financial assets at fair value through profit or loss:				
Equity securities	**6,567**	**267**	**–**	**6,834**
Debt securities	**10**	**3,075**	**–**	**3,085**
Available-for-sale investments:				
Equity securities	**67,515**	**630**	**18,500**	**86,645**
Debt securities	**15,410**	**79,715**	**–**	**95,125**
TOTAL	**89,502**	**83,757**	**18,500**	**191,759**

	As at 31 December 2011			
(in RMB million)	Level 1	Level 2	Level 3	Total
Term deposits	–	189	–	189
Derivative financial assets	–	184	–	184
Financial assets at fair value through profit or loss:				
Equity securities	5,131	346	–	5,477
Debt securities	30	2,051	–	2,081
Available-for-sale investments:				
Equity securities	54,422	98	–	54,520
Debt securities	15,794	92,698	–	108,492
TOTAL	75,377	95,566	–	170,943

During the years ended 31 December 2012 and 2011, due to the discontinuity and resumption of trading and activities in the market, the Group transferred certain equity securities and certain debt securities between Level 1 and Level 2, but no transfers into or out of Level 3.

43. FAIR VALUE AND FAIR VALUE HIERARCHY *(continued)*

Determination of fair value and fair value hierarchy *(continued)*

On 1 March 2012, PICC AMC entered into a share subscription agreement with Industrial Bank Co., Ltd. ("IB"), where PICC AMC agreed to subscribe for approximately 1.38 billion IB shares with the entrusted assets of the Group. On 17 December 2012, the CSRC approved this transaction. On 31 December 2012, IB issued 1.38 billion shares to the Group and the Group paid a cash consideration according to the share subscription agreement.

Since such IB shares are subject to a lock-up period of 36 months, in estimation of their fair value, the Group used quoted price of IB shares taking into account of non-marketability discount estimated using Black-Scholes option pricing model. The Group used the historical volatility of IB share price as the significant unobservable input in the fair value measurement of the non-marketability discount. An increase or decrease in historical volatility of IB shares would have a significant impact on the fair value measurement of non-marketability discount and the recorded fair value. Therefore, the above available-for-sale investment for IB was classified to level 3 fair value hierarchy.

44. CONTINGENCIES AND COMMITMENTS

(a) Contingencies

(1) Due to the nature of the insurance business, the Group is subject to legal proceedings in the ordinary course of business, including being the plaintiff or the defendant in litigation and arbitration. Such legal proceedings mostly involve claims on the Group's insurance policies and the losses incurred will be partly indemnified by reinsurers or other recoveries including salvage and subrogation. Provision has been made for the probable losses to the Group, including those claims where management can reasonably estimate the outcome of the litigation taking into account the related legal advice, if any. No provision is made for contingencies and legal proceedings when the result cannot be reasonably estimated or the probability of loss is low or remote.

(2) The Company underwent restructuring and reorganisation during the period from 1996 and 1998. As a result of the restructuring and reorganisation, the Company and another insurance company were spun off from the predecessor company, the People's Insurance Company of China, and each spun-off entity inherited certain assets and liabilities. During the process, the Company owed certain amounts to that insurance company and settled these debts by cash payments, assets or by certain offsetting arrangements. Due to the long history and turnover of staff, the Company is not able to reach an agreement with that insurance company regarding the balances of debts that have been repaid in the form of assets or receivables. Potentially, certain receivables or payables may exist among these entities. However, the Company's management is of the opinion that the debts have been fully repaid, and therefore any contingent indebtedness will not significantly impact these consolidated financial statements.

(3) As at the approval date of these financial statements, there were various title defects for certain investment properties, property and equipment, intangible assets and other assets held by the Group. The Group may be required to incur costs including relevant taxes to remediate these defects. The cost that will be incurred for the remediation cannot be quantified at this stage.

44. CONTINGENCIES AND COMMITMENTS *(continued)*

(a) Contingencies *(continued)*

(4) Certain branches and subsidiaries are involved in legal proceedings. The Group has already made certain accruals for some possible losses to its best knowledge. However, due to historical reasons, the Group owns a large number of branches and subsidiaries, and the Group does not make any accrual for legal proceedings for which losses cannot be reasonably estimated or management is of the opinion that it is less probable that economic resources would flow out of the Group. The Group's management believes that the outcome of these proceedings, whether individually or collectively, would not impact the Group's financial position and operating results significantly.

Other than the above, as at the end of 2012, the Group had no significant contingencies to disclose.

(b) Capital commitments and operating leases

(1) Capital commitments

(in RMB million)	**31 December 2012**	31 December 2011
Property and equipment commitments:		
Contracted, but not provided for	**1,665**	392
Authorised, but not contracted for	**3,248**	742
Equity investment commitments:		
Contracted, but not provided for	**240**	240
TOTAL	**5,153**	1,374

44. CONTINGENCIES AND COMMITMENTS *(continued)*

(b) Capital commitments and operating leases *(continued)*

(2) Operating leases

(i) As lessor

The Group leases its investment properties (note 26) under operating lease arrangements, with lease terms ranging from one to ten years. The terms of the leases generally require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At the end of 2012 and 2011, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

(in RMB million)	**31 December 2012**	31 December 2011
Within one year	**134**	139
In the second to third years, inclusive	**198**	203
After three years	**170**	206
TOTAL	**502**	548

(ii) As lessee

The Group leases certain of its office properties and office equipment under operating lease arrangements. Lease terms for properties range from one to ten years. Lease terms for motor vehicles range from one to three years.

Future minimum lease payments under non-cancellable operating leases as at the end of 2012 and 2011 are as follows:

(in RMB million)	**31 December 2012**	31 December 2011
Within one year	**129**	189
In the second to third years, inclusive	**305**	164
After three years	**279**	119
TOTAL	**713**	472

45. RELATED PARTY DISCLOSURES

(1) The Company is a state-owned enterprise and its controlling shareholder is the MOF. The consolidated financial statements include the financial statements of the Company and the subsidiaries. Please refer to note 24 for more details of the Company's major subsidiaries.

(2) The Group's related parties where significant influence exists include the associates and jointly controlled entities. Details are set out below:

Name of related parties	Relationship with the Group 31 December 2012	 31 December 2011
China Credit Trust	**Associate**	Associate
Shaanxi Huasheng (i)	**Non-related party**	Associate
Guoguang Media Investment limited Company ("Guoguang Media") (i)	**Non-related party**	Associate
Xinhuangpu Real Estate (i)	**Non-related party**	Associate
Huawen Media (i)	**Non-related party**	Associate
Shenzhen Securities Times Media Limited Company ("Times Media") (i)	**Non-related party**	Associate
Shenzhen Xinhuawen Financial Media Limited Company ("Financial Media") (i)	**Non-related party**	Associate
Tiantai Asset Management Company Limited related companies	**Non-related party**	Non-consolidated subsidiary

(i) All of these companies were not related parties of the Group after Guanglian and Huawen Holdings were disposed of as at 31 May 2012.

(3) Compensation of key management personnel

Key management personnel of the Company include Directors, supervisors and senior management. The summary of compensation of key management personnel for 2012 and 2011 is as follows:

(in RMB million)	31 December 2012	31 December 2011
Salaries, allowances and performance related bonuses	**10**	21
Social insurance and housing fund	**5**	4
TOTAL	**15**	25

The total compensation package for the Company's key management for the year ended 31 December 2012 has not yet been finalised in accordance with regulations of the PRC relevant authorities. The compensation of 2011 has been approved by the PRC relevant authorities.

45. RELATED PARTY DISCLOSURES *(continued)*

(4) Balances with related parties

(in RMB million) Receivables from related parties	As at 31 December 2012	2011
Other assets		
The MOF (i)	**707**	707
China Credit Trust (ii)	**294**	294
SUBTOTAL	**1,001**	1,001
Less: impairment	**–**	–
TOTAL	**1,001**	1,001

(i) Details of the receivables from the MOF are disclosed in note 30(c).

(ii) Receivables from China Credit Trust are dividends receivables.

(5) Transactions with related parties

(i) Details of dividends received from associates are included in note 25(c).

(ii) In 2012, China Credit Trust received management income of RMB144 million (2011: RMB39 million) through managing the trust investments of subsidiaries of the Group.

45. RELATED PARTY DISCLOSURES *(continued)*

(6) Transactions with state-owned entities in the PRC

The Company is a state-owned enterprise which is subject to the control of the State Council of the PRC government. The Group operates in an economic environment predominated by enterprises directly or indirectly owned and/or controlled by the government through its authorities, affiliates or other organisations (collectively the "state-owned entities"). During 2012 and 2011, the Group's key business is insurance or insurance related business and therefore the business transactions with other state-owned entities are primarily related to insurance and investment activities, but not limited to issuing insurance policies, reinsurance, provision of asset management or other services, the sale, purchase, and redemption of bonds or equity instruments.

Management considers that transactions with state-owned entities are activities conducted in the ordinary course of business, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and those state-owned entities are ultimately controlled or owned by the PRC government. The Group has also established pricing policies for products and services and such pricing policies do not depend on whether or not the customers are state-owned entities.

Due to the complex ownership structure, the PRC government may hold indirect interests in many companies. Some of these interests may, in themselves or when combined with other indirect interests, be controlling interests which may not be known to the Group.

As at the end of 2012 and 2011, most of the bank deposits of the Group were with state-owned banks; the issuers of corporate bonds and subordinated bonds held by the Group were mainly state-owned enterprises. For the current year, a large portion of the insurance business of the Group was with state-owned enterprises; the majority of bancassurance brokerage charges were paid to state-owned banks and postal office; part of the reinsurance agreements of the Group was entered into with state-owned reinsurance companies.

46. EVENT AFTER THE REPORTING PERIOD

According to the announcement made on 1 March 2013, the Company decided to fully exercise the redemption right under the terms of the debt subscription agreements, and expected the debt redemption to be completed by 8 April 2013. The Company will redeem the above mentioned subordinated debts at par value and pay subordinate debt interest of approximately RMB472 million, amounting to approximately RMB8.28 billion in total.

Except as disclosed above, the Group had no significant events subsequent to 31 December 2012.

47. APPROVAL OF THE FINANCIAL STATEMENTS

These consolidated financial statements were approved by the Board of the Company on 25 March 2013.

Corporate Information

REGISTERED NAME

Chinese name:	中國人民保險集團股份有限公司
Abbreviation of Chinese name:	中國人保集團
English name:	THE PEOPLE'S INSURANCE COMPANY (GROUP) OF CHINA LIMITED
Abbreviation of English name:	PICC Group

REGISTERED OFFICE

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PLACE OF LISTING OF H SHARES

The Stock Exchange of Hong Kong Limited

TYPE OF STOCK

H Share

STOCK NAME

PICC Group

STOCK CODE

1339

H SHARE REGISTRAR

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PICC

中国人民保险集团股份有限公司

THE PEOPLE'S INSURANCE COMPANY (GROUP) OF CHINA LIMITED