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 2013

Company Profile

Founded in October 1949, The People's Insurance Company (Group) of China Limited (the "Company") is the first nation-wide insurance company in the People's Republic of China (the "PRC") and has developed into a leading large-scale integrated insurance financial group in the PRC, ranking 256th on the Global 500 (2013) published by the *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 92.25% equity interests, respectively. The Company centrally and professionally manages most of its insurance assets through PICC Asset Management Company ("PICC AMC"), in which the Company holds 81% of equity interest, and holds a 100% equity interest in PICC Investment Holding Co., Ltd ("PICC Investment Holding") which is a professional investment company specializing in real estate investments. The Company also carries out non-transactional businesses such as equity and debt investments in insurance and non-insurance capital within and outside the Group through PICC Capital Investment Management Company Limited ("PICC Capital") in which it holds a 100% 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 and possess a well-recognized brand with the longest history in the industry.
- We are an integrated insurance financial group focusing on our core business, taking 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 as well as 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

	2013	2012	% change	2011	2010	2009
Group consolidation						
Total assets	**755,319**	688,650	9.7	585,152	442,879	306,343
Total liabilities	**660,518**	605,308	9.1	537,217	406,166	272,062
Total equity	**94,801**	83,342	13.7	47,935	36,713	34,281
Gross written premiums	**306,421**	265,216	15.5	249,047	229,440	168,552
Net profit	**12,055**	10,144	18.8	7,897	5,847	1,751
Net profit attributable to equity holders of the Company	**8,121**	6,832	18.9	5,185	3,987	1,108
Earnings per share (RMB)[1]	**0.19**	0.20	(2.4)	0.16	0.13	0.04
Net assets value per share (RMB)[1]	**1.69**	1.54	9.5	0.91	0.76	0.72
Weighted average return on equity (%)	**11.9**	18.2	Decrease of 6.4 pt	19.0	17.6	5.7

(1) As attributable to equity holders of the Company.

Mr. Wu Yan
Chairman

Dear Shareholders,

2013 was the first full year of operation of the Company since its listing. In the past year, the Company and its subsidiaries (the "Group") adhered to the key aspiration of "maintaining steady growth and focusing on value creation" and overcame such with unfavorable factors, including the spread of international financial crisis, greater downward pressure on domestic economy, and challenging business environment for the insurance industry with positive attitude and great effort. As a result, we managed to achieve record-high operational results.

In 2013, the Group became more value-oriented and realized significant increase in profitability and business results with an increase in net profit of approximately 20%. We strived to thoroughly apply the philosophy of and requirements of value creation throughout the Group, which in turn brought with stable increase in net return on equity, underwriting profit and investment income. In 2013, the Group realized a net profit of RMB12,055 million and a net profit attributable to shareholders of RMB8,121 million, respectively, representing a year-on-year increase of 18.8% and 18.9%, and both were record highs for the Group. Meanwhile, by enhanced cost control and refined management, PICC P&C recorded a combined cost ratio of 96.7%, which was attributable to an underwriting profit constantly higher than industry average. PICC Life kept strengthening its profitability and recorded a year-on-year increase in net profit of 8.7%. The total investment yield of the Group was 5.2% which had an increase of 1 percentage point as compared to 2012 and constantly above industry benchmark. In the performance evaluation of financial enterprises conducted by the Ministry of Finance (the "MOF") in 2013, the Group received the highest rating of "Excellent (Class A Grade AAA)" again, and was the only PRC insurance group that received such rating for two consecutive years.

In 2013, the Group continued innovation by virtue of its traditional advantage and maintained stable business growth, which further improved its comprehensive strength. We insisted on developing the Group's potential contained in its traditional advantage by reform and innovation. Through establishing targeted market strategy, the Group achieved favorable business development. In 2013, the Group received gross written premiums ("GWPs") of RMB306.421 billion, representing a year-on-year growth of 15.5% or RMB41.205 billion, and ranked the top in the industry. PICC P&C received GWPs of RMB223.525 billion, representing a year-on-year growth of 15.5%, and ranked second in the world in terms of gross insurance business amount of a single P&C insurance company brand. PICC Life received GWPs of RMB75.273 billion, representing a year-on-year increase of 17.6%, ranked fifth in the market for the past three years in terms of premium as well as ranked second in life insurance market for the past four years in terms of premium from new policy, which further optimized our business structure. In 2013, PICC Health recorded a stable growth in professional health insurance with GWPs of RMB7,525 million.

In 2013, the Group improved strategic synergy, encouraged business cooperation and realized benefits through system build-up. The Group established an application system sharing center, which came into operation this year and represented an informational base for improving the Group's management. Meanwhile, we kept developing the financial information centralized management system and HR system, and promoting mobile application system such as "PICC In Hand" and "Bancassurance In Hand" to establish an intelligent platform for claim management in order to have an obvious boost in insurance business and set up an efficient claiming process. In 2013, written premiums from cross-selling activities amounted to RMB19.769 billion, representing a year-on-year increase of 28.0% and accounted for 6.1% of total written premiums ("TWPs"). The Group endeavored to build an integrated sales and service platform that was designed to serve "Sannong" ("三農", namely, agriculture, rural areas and farmers), through which its business synergy and development strength were further improved.

In 2013, the Group operated its business in accordance with laws, avoided operational risks and further strengthened on-going development. We believe that internal control and compliance create value and consider risk prevention and operation in compliance with law a key element in sustainable development. In 2013, the Group's risk management and internal information control system came into operation and the work on optimizing risk dynamic supervision mechanism continued. We advocated the idea of "Serving people with Honesty and High Quality" and strived to rectify problems in sales misrepresentation and claims settlement. The claims settlement turnover for motor vehicle insurance claims below RMB10,000 decreased by 12.4% compared to 2012 and the customer complaint rate for each RMB100 million of premiums recorded a drop of 46.1%. The customer complaint rate for each RMB100 million and each 1,000 entities of PICC Life and PICC Health were lower than the average complaint rate in the industry. We adopted practical measures to avoid solvency risk. As at 31 December 2013, the solvency margin ratios of the Group, PICC P&C and PICC Life were above the Adequate Solvency II category standard.

In 2013, the Group explored more development potentials and created unique value in taking social responsibilities. In serving "Sannong" ("三農", namely, agriculture, rural areas and farmers), the Group has offered over 80 types of agricultural insurance products throughout the year and achieved 130 million customer sales of agriculture insurance products with accumulative risk liabilities of RMB740.41 billion. In addition, the number of insured of the Group's rural housing insurance reached 56.94 million households with risk liabilities of RMB733.3 billion. In terms of support and protection of forest tenure reform, our annual insurance coverage of the total forest area was 943 million hectares, and regions where we offered central policy forest insurance have been expanded to 19 provinces (including regions and cities). In serving the establishment of healthcare system, the Group won more than 80 biddings in illness insurance projects and provided critical illness insurance to approximately 170 million residents in 95 regions and cities. In controlling claim settlement in circumstances of catastrophes, the Group was dedicated to the disaster relief in the flood damage in South-East China, Typhoon Fitow in Zhejiang as well as earthquakes in Lushan, Sichuan and Dingxi, Gansu. Meanwhile, we actively participated in claim settlement for such catastrophes and these efforts were welcomed by the local governments and residents.

2014 is a vital year for comprehensive and deepened reformation. Based on our key aspiration of "Improving innovation and creation, maintaining stable growth and further focusing on value creation", PICC Group will follow the trend of deepening reformation and establish a market-and-customer-oriented value creation system as well as a customer service system with high synergy. In the coming year, the Group will diligently perform all our duties, continue to promote the steady growth of the Group's overall value, and reward our shareholders, our employees and the society with better performance.

Chairman
Wu Yan

Beijing, the PRC
28 March 2014

Honors and Awards

1. Ranked 256th on the Global 500 published by *Fortune* magazine

   On 8 July 2013, the Company ranked 256th on the Global 500 published by *Fortune* magazine in the US, 36 ranks higher than in year 2012.

2. Ranked 33rd on the Top 500 Enterprises of China (2013)

   On 31 August 2013, the Group ranked 33rd on the Top 500 Enterprises of China, which was the third highest rank among insurance enterprises, with operating income of RMB257.349 billion. In 2013, the Group also ranked 16th on the Top 500 Service Industry Enterprises of China.

3. Received rating of Class A Grade AAA in the performance evaluation by the MOF

   In 2013, the Group received rating of Class A Grade AAA from the MOF again, and was the only PRC insurance company receiving such rating for two successive years.

4. Awarded "Golden Financial Strength Insurance Company for the Year"

   In 2013, the Company was awarded "Golden Financial Strength Insurance Company for the Year" in the appraisal of the fourth session of the "Golden Pixiu Prize" of the "Gold Medal Finance Top 10 in China 2013" sponsored by the magazine *Financial Money*.

5. Awarded the "Golden Award of Marketing Communication in the China Advertisement Great Wall Award"

   On 26 October 2013, the Company was awarded the "Golden Award of Marketing Communication in the China Advertisement Great Wall Award" in the 20th China International Advertising Festival by virtue of its activity named "Listen to your heart, Green China (傾聽心聲，綠動中國)" in the 2013 customer festival.

6. PICC P&C was granted with "A1 Insurance Financial Strength Rating"

   On 19 December 2013, Moody's Investors Service affirmed the A1 insurance financial strength rating for PICC P&C.

7. PICC P&C was awarded "Top 100 Hong Kong Stocks" and "Top 100 Comprehensive Strength Companies" for the year 2013.

   On 18 November 2013, PICC P&C was awarded "Top 100 Hong Kong Stocks" and "Top 100 Comprehensive Strength Companies" for the year 2013 by Finet Group, an authoritative financial media in Hong Kong, and QQ.com, respectively.

8. PICC AMC was presented three awards by Thomson Reuters

   In 2013, PICC AMC was awarded "The First runner-up of Comprehensive Award of Thomson Reuters's China Fixed Income Market Outlook Predication in 2013", "The Champion of the Comprehensive Award of Thomson Reuters's China Fixed Income Market Outlook Predication in the Second Half of 2013" and "The Best Interest Yielding Bond of Thomson Reuters's China Fixed Income Market Outlook Predication in the Second Half of 2013" by Thomson Reuters.

9. PICC Health won the "Most Competitive Insurance Company Award of the Year 2013"

   On 15 January 2014, PICC Health won the "Most Competitive Insurance Company Award of the Year 2013" jointly awarded by *Financial Times* and the Financial Institute of the Chinese Social Sciences Academy for its professional operation in health insurance and its active exploration and engagement in establishing state medical insurance system. This award is one of the most recognized awards for the PRC financial industry.

10. PICC Life was awarded the "Most Competitive Life Insurance Company for the Year"

    On 6 January 2013, PICC Life won the "Most Competitive Life Insurance Company for the Year" jointly awarded by the magazine *Financial Money*, Golden Fortune (Beijing) Institute (金牌財富(北京)研究院) and the IPSOS Group.

The Group divides its three principal business lines of P&C insurance, life and health insurance and asset management into four operating segments for reporting purposes: P&C insurance business constitutes the P&C insurance segment and includes PICC P&C and PICC Hong Kong, in which the Company holds 68.98% and 75.0% equity interests, respectively; life and health insurance business constitutes two separate segments, including life insurance segment and health insurance segment, among which the life insurance segment includes PICC Life, in which the Company holds an 80.0% equity interest directly and indirectly, and the health insurance segment includes PICC Health, in which the Company holds a 92.25% equity interest directly and indirectly [1]; and the asset management business constitutes the asset management segment and primarily includes PICC AMC, PICC Investment and PICC Capital, in which the Company holds 81.0%, 100.0% and 100.0%, respectively.

(1) As of 31 December 2013.

KEY OPERATING INDICATORS

(i) Key Operating Data

	2013	2012	
	(RMB in millions, except for percentages)		(% change)
Original Premiums Income [1]			
PICC P&C	**223,005**	193,018	15.5
PICC Life	**75,273**	64,030	17.6
PICC Health	**7,640**	7,600	0.5
Market share [2]			
PICC P&C (%)	**34.4**	34.9	Decrease of 0.5 pt
PICC Life (%)	**7.0**	6.4	Increase of 0.6 pt
PICC Health (%)	**0.7**	0.8	Decrease of 0.1 pt
Combined ratio of PICC P&C (%)	**96.7**	95.1	Increase of 1.6 pt
Total investment yield (%)	**5.2**	4.2	Increase of 1.0 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 (the "CIRC").

(2) The market share of PICC P&C represents its market share among all P&C insurance companies, and the market share of PICC Life and PICC Health represent their respective market share among all life and health insurance companies.

	As of 31 December 2013	As of 31 December 2012	
	(RMB in millions, except for percentages)		(% change)
Embedded Value of PICC Life	**36,863**	30,906	19.3
Embedded Value of PICC Health	**2,491**	4,569	(45.5)
Value of one year's new business of PICC Life	**4,070**	4,031	1.0
Value of one year's new business of PICC Health	**481**	738	(34.8)
Solvency margin ratio of the Group (%)	**148**	152	Decrease of 4 pt
Solvency margin ratio of PICC P&C (%)	**180**	175	Increase of 5 pt
Solvency margin ratio of PICC Life (%)	**202**	130	Increase of 72 pt
Solvency margin ratio of PICC Health (%)	**116**	162	Decrease of 46 pt

In 2013, adhering to its key aspiration of "maintaining steady growth and focusing on value creation", the business of the Group has grown steadily with ever-rising profitability and strengthening synergies, despite increasing pressure from the economic slowdown and intensifying industry competition. In 2013, the market share of PICC P&C in the P&C insurance market was 34.4%, the market share of PICC Life in life and health insurance market was 7.0% and the market share of PICC Health in life and health insurance market was 0.7%, respectively. In terms of TWPs, the TWPs of PICC P&C, PICC Life, PICC Health and PICC Hong Kong amounted to RMB223,005 million, RMB86,941 million, RMB12,925 million and HKD130 million, respectively in 2013. The Group has enhanced the capacity of its teams and institutions, continuously promoted the diversification of channels and further developed its cross-selling capability to further strengthen its foundation. The TWPs generated by cross-selling among the Group's business lines grew by 28.0% to RMB19,769 million in 2013 from RMB15,440 million in 2012. In 2013, the number of policyholders who purchased any two or more types of insurance products in PICC P&C, PICC Life, PICC Health reached 2.687 million, a 29.7% increase compared to 2012, and the number of policies purchased by these policyholders increased to 4.53 per person on average.

(2) Key Financial Indicators

	2013	2012	
	(RMB in millions, except for percentages)		(% change)
Gross written premiums	**306,421**	265,216	15.5
P&C Insurance	**223,622**	193,586	15.5
Life Insurance	**75,273**	64,030	17.6
Health Insurance	**7,525**	7,600	(1.0)
Profit before tax	**15,670**	13,320	17.6
Net profit	**12,055**	10,144	18.8
Net profit attributable to equity holders of the Company	**8,121**	6,832	18.9
Earnings per share (RMB)	**0.19**	0.20	(2.4)
Weighted average return on equity (%)	**11.9**	18.2	Decrease of 6.4 pt

	As of 31 December 2013	As of 31 December 2012	
	(RMB in millions, except for percentages)		(% change)
Total assets	**755,319**	688,650	9.7
Total liabilities	**660,518**	605,308	9.1
Total equity	**94,801**	83,342	13.7
Net assets per share (RMB)	**1.69**	1.54	9.5

The Group's capital base has been further strengthened in which the total equity grew by 13.7% to RMB94,801 million as of 31 December 2013 from RMB83,342 million as of 31 December 2012. In 2013, the Group realized GWPs of RMB306,421 million, a 15.5% increase compared to 2012. Benefiting from rapid development and improving profitability of the business, the Group's net profit grew by 18.8% to RMB12,055 million in 2013 from RMB10,144 million in 2012. Profit attributable to equity holders of the Company grew by 18.9% to RMB8,121 million in 2013 from RMB6,832 million in 2012. In 2013, the weighted average return on equity decreased by 6.4 percentage points to 11.9% from 18.2% in 2012 as a result of the increase in shares upon listing.

The net assets per share of the Group increased by 9.5% to RMB1.69 as of 31 December 2013 from RMB1.54 as of 31 December 2012. In 2013, the Group's earnings per share decreased by 2.4% to RMB0.19 from RMB0.20 in 2012 as a result of the increase in shares upon listing.

P&C INSURANCE BUSINESS

In 2013, the Group's P&C insurance segment actively responded to unfavorable factors such as complicated economic environment and major natural disasters, strongly promoted its transformation of customer-oriented business, achieved continuous growth in traditional business as well as rapid growth in emerging business, maintained its industry-leading position in underwriting profitability, materialized stable growth in assets and notably improved its comprehensive strength with a record-high operating results.

(1) Analysis by Product

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

	For the Year Ended 31 December		
	2013	2012	
	(RMB in millions, except for percentages)		(% change)
Motor vehicle insurance	**163,246**	141,751	15.2
Commercial property insurance	**12,633**	12,295	2.7
Liability insurance	**8,504**	7,413	14.7
Accidental injury and health insurance	**9,934**	6,484	53.2
Cargo insurance	**3,674**	3,848	(4.5)
Other P&C insurance	**25,631**	21,793	17.6
Total	**223,622**	193,586	15.5

GWPs for the P&C insurance segment increased by 15.5% to RMB223,622 million in 2013 from RMB193,586 million in 2012. The overall steady growth was largely driven by the development in the motor vehicle insurance, accidental injury and health insurance as well as the liability insurance.

GWPs for motor vehicle insurance increased by 15.2% to RMB163,246 million in 2013 from RMB141,751 million in 2012. In 2013, the domestic automobile sales resumed growth, and the sales of automobile, number of new policies and renewal of policies for automobile increased. In addition, through vigorous development of new sales channels such as telemarketing, online sales and mobile-platform sales, the P&C insurance segment has strengthened the establishment of new sales channels to improve the information management of relevant customers as well as relevant services, and achieved satisfactory results.

P&C insurance segment positively dealt with external unfavorable factors. Under the backdrop of a declining written rate, P&C insurance segment endeavored to explore potential markets and achieved a stable growth in commercial property insurance with an increased number of insurance policies. GWPs for commercial property insurance increased by 2.7% to RMB12,633 million in 2013 from RMB12,295 million in 2012.

GWPs for liability insurance increased by 14.7% to RMB8,504 million in 2013 from RMB7,413 million in 2012, of which a faster growth rate has been recorded in employer liability insurance, medical liability insurance and public liability insurance.

GWPs for accidental injury and health insurance increased by 53.2% to RMB9,934 million in 2013 from RMB6,484 million in 2012, of which a faster growth rate has been recorded in accidental insurance for construction projects, borrowers, school children and motor vehicle owners. In 2012, six ministries and commissions of the State Council jointly issued “The Guidance Opinions regarding the Development of Critical Illness Insurance for Urban and Rural Residents”. P&C insurance segment provided assistance in state medical and public health systems reform by setting up Health Insurance Management Centre and managing and operating illness insurance projects with closed operation. By leveraging on its advantages in its brandname, services and networks, the P&C insurance segment won the bids for a number of provincial, municipal and county-level illness insurance projects.

GWPs for cargo insurance decreased by 4.5% to RMB3,674 million in 2013 from RMB3,848 million in 2012, which was mainly due to the decrease of the source of cargo insurance policies, and the significant decrease in average written premiums and average written rate of cargo insurance under the influence of marco-economic condition.

GWPs attributable to other P&C insurance in the P&C insurance segment increased by 17.6% to RMB25,631 million in 2013 from RMB21,793 million in 2012. In 2013, the P&C insurance segment broadened its general sales channels, improved the operation model for differentiated sales channels and vigorously expanded the short-term export credit insurance for micro, small and medium enterprises.

(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 further divided into insurance agents, 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 RMB40,850 million in 2013, an increase of 45.4% compared to 2012.

	For the Year Ended 31 December				
	2013			2012	
	Amount	(% of total)	(% change)	Amount	(% of total)
	(RMB in millions, except for percentages)				
Insurance agents	133,962	60.0	7.7	124,389	64.5
Among which:					
Individual insurance agents	72,835	32.6	5.1	69,279	35.9
Ancillary insurance agents	49,505	22.2	8.3	45,729	23.7
Professional insurance agents	11,622	5.2	23.9	9,381	4.9
Direct sales	76,843	34.5	33.4	57,599	29.8
Insurance brokerage	12,200	5.5	10.6	11,030	5.7
Total	223,005	100.0	15.5	193,018	100.0

(3) Financial Analysis

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

	For the Year Ended 31 December		
	2013	2012	
	(RMB in millions, except for percentages)		(% change)
Net earned premiums	183,125	155,787	17.5
Investment income	10,568	7,522	40.5
Other income	1,239	935	32.5
Total income	206,126	174,207	18.3
Net claims incurred	121,355	99,031	22.5
Handling charges and commissions	19,030	17,044	11.7
Finance costs	2,060	1,633	26.1
Other operating and administrative expenses	49,358	43,193	14.3
Total benefits, claims and expenses	191,939	160,914	19.3
Profit before tax	15,408	13,359	15.3
Income tax expense	(3,209)	(2,952)	8.7
Net profit	12,199	10,407	17.2

Net earned premiums

Benefiting from the relatively rapid development in the businesses of motor vehicle insurance, accidental injury and health insurance and liability insurance, net earned premiums from the P&C insurance segment increased by 17.5% to RMB183,125 million in 2013 from RMB155,787 million in 2012.

Investment income

In 2013, the P&C insurance segment continued with its prudent and steady investment strategy, increased investment in securities purchased under resale agreements and negotiated deposits, firmly grasped investment opportunities and timely reduced the proportion of investment in equity securities. As a result, investment income of the P&C insurance segment increased by 40.5% to RMB10,568 million in 2013 from RMB7,522 million in 2012.

Net claims incurred

Net claims incurred for the P&C insurance segment increased by 22.5% to RMB121,355 million in 2013 from RMB99,031 million in 2012. In 2013, the loss ratio of the commercial property insurance rose as a result of the impact of natural disasters, including Typhoon Fitow and torrential rain in Northeast China. The rising price of auto spare parts and the costs of repair and maintenance as well as the upgraded standards for personal injury compensation resulted in an increase in the loss ratio of motor vehicle insurance, while the loss ratio of liability insurance decreased compared to 2012.

Handling charges and commissions

Handling charges and commissions of the P&C insurance segment increased by 11.7% to RMB19,030 million in 2013 from RMB17,044 million in 2012. The growth of handling charges and commissions was slower than that of the net earned premiums, which was mainly due to an increase in sales from direct sales channels in 2013.

Finance costs

Finance costs of P&C insurance segment increased by 26.1% to RMB2,060 million in 2013 from RMB1,633 million in 2012, due to the increase in the interest expenses on securities sold under the agreements to repurchase.

Net Profit

As a result of the foregoing, there was a growth in the net profit of the P&C insurance segment in 2013, which increased by 17.2% to RMB12,199 million in 2013 from RMB10,407 million in 2012, representing a new record-high in operating results.

LIFE AND HEALTH INSURANCE

(1) Life insurance

In 2013, the Group's Life insurance segment continued to adhere to the guiding ideology of "economies of scale" and furthered the strategy of differentiated competition. With "diversification" as the direction of transition, the organization structure and team building were further strengthened. The management and control as well as service capability were improved continuously which led to a steady business growth, an increase in its operating benefit and a continuous enhancement of corporate value with a more secured market position.

In 2013, TWPs of the Life insurance segment amounted to RMB86,941 million, representing an increase of 11.5% as compared to 2012; the TWPs of new policies of PICC Life amounted to RMB79,073 million, ranking second in this field for four consecutive years, which reflected that PICC Life sustained high capability to obtain new policies; the TWPs of long-term regular premium business amounted to RMB10,658 million, an increase of 9.4% compared to 2012. The percentage of regular premium business in life insurance business was 12.6%. Value of one year's new business increased by 1.0% to RMB4,070 million compared to 2012. As at the end of 2013, the embedded value amounted to RMB36,863 million, representing an increase of 19.3% compared to 2012.

1. *Analysis by Product*

Income from various products of the life insurance segment for the purpose of Original Premiums Income for the reporting periods is as follows:

	For the Year Ended 31 December			
	2013		2012	
Life insurance products	RMB in millions	% of total	RMB in millions	% of total
Traditional life and health insurance	9,016	12.0	1,419	2.2
Participating life insurance	63,567	84.4	60,332	94.2
Universal life insurance	82	0.1	81	0.1
Accidental injury and short-term health insurance	2,608	3.5	2,198	3.4
Total	75,273	100.0	64,030	100.0

In terms of TWPs, the TWPs of traditional life and health insurance, participating life insurance, universal life insurance, accidental injury and short-term health insurance in 2013 amounted to RMB9,016 million, RMB65,085 million, RMB10,232 million and RMB2,608 million, respectively, representing an increase of 535.3%, 3.6%, -11.4% and 18.6%, respectively, compared to 2012.

2. *Analysis by Channel*

Income of life insurance segment by distribution channel for the purpose of Original Premiums Income for the reporting periods, which can be further divided into bancassurance channel, individual insurance agent channel and group insurance sales channel is as follows:

	For the Year Ended 31 December (RMB in millions, except for percentages)		
	2013	2012	(% change)
Bancassurance	**49,489**	46,103	7.3
First-year business of long-term insurance	**45,108**	42,607	5.9
Single premiums	**43,698**	40,670	7.4
First-year regular premiums	**1,410**	1,937	(27.2)
Renewal business	**4,210**	3,369	25.0
Short-term insurance	**171**	127	34.6
Individual life	**19,611**	11,478	70.9
First-year business of long-term insurance	**16,610**	8,587	93.4
Single premiums	**15,269**	7,883	93.7
First-year regular premiums	**1,341**	704	90.5
Renewal business	**2,176**	2,117	2.8
Short-term insurance	**825**	774	6.6
Group Insurance	**6,173**	6,449	(4.3)
First-year business of long-term insurance	**4,506**	5,148	(12.5)
Single premiums	**4,489**	5,095	(11.9)
First-year regular premiums	**17**	54	(68.5)
Renewal business	**56**	4	1300.0
Short-term insurance	**1,611**	1,297	24.2
Total	**75,273**	64,030	17.6

In terms of TWPs, the TWPs from the bancassurance channel, individual insurance agent channel and group sales channel in 2013 amounted to RMB57,843 million, RMB21,342 million and RMB7,756 million, respectively.

Bancassurance channel furthered the diversification of cooperation channels and actively promoted the integrated wealth management business. The TWPs of first-year insurance business from bancassurance amounted to RMB53,617 million, ranking second in this field for five consecutive years. Individual insurance agent channel continued to focus on building networks in rural area and strived to enhance its value-creation capabilities. The TWPs from individual insurance has an increase of 14.8% to RMB21,342 million as compared to 2012.

3. *Persistency ratio*

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

	For the Year Ended 31 December	
Item	**2013**	2012
Individual life insurance customer persistency ratio (%)		
13-month persistency ratio [(1)] (%)	**81.0**	91.9
25-month persistency ratio [(2)] (%)	**86.3**	91.3

(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 the 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 the issuance.

4. *Financial Analysis*

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

	For the Year Ended 31 December		
	2013	2012	
	(RMB in millions, except for percentages)		(% change)
Net earned premiums	**74,986**	63,720	17.7
Investment income	**15,411**	11,476	34.3
Other income	**429**	535	(19.8)
Total income	**90,848**	75,750	19.9
Claims and policyholders' benefits	**81,950**	66,590	23.1
Handling charges and commissions	**2,605**	3,087	(15.6)
Finance costs	**1,948**	1,880	3.6
Other operating and administrative expenses	**4,213**	3,547	18.8
Total benefits, claims and expenses	**90,848**	75,112	21.0
Profit before tax	**1,134**	680	66.8
Income tax expense	**(308)**	80	–
Net Profit	**826**	760	8.7

Net earned premiums

Net earned premiums for the life insurance segment increased by 17.7% to RMB74,986 million in 2013 from RMB63,720 million in 2012, mainly due to the introduction of products which better suit customers' needs and the increased efforts in promoting the business.

Investment income

The investment income of the life insurance segment increased by 34.3% to RMB15,411 million in 2013 from RMB11,476 million in 2012, mainly due to a reasonable allocation of investment assets and the continuous increase in investment assets.

Other income

Other income of the life insurance segment decreased by 19.8% to RMB429 million in 2013 from RMB535 million in 2012, mainly due to the declined scale of policyholder deposits and investment business.

Claims and policyholders' benefits

Claims and policyholders' benefits for the life insurance segment increased by 23.1% to RMB81,950 million in 2013 from RMB66,590 million in 2012, mainly due to an increase in the amount of claim reserves and lapse rate.

Handling charges and commissions

Handling charges and commissions of the life insurance segment decreased by 15.6% to RMB2,605 million in 2013 from RMB3,087 million in 2012, mainly due to a decrease in handling charges of certain products of the Company in 2013.

Finance costs

Finance costs of the life insurance segment increased by 3.6% to RMB1,948 million in 2013 from RMB1,880 million in 2012, mainly due to an increase in interest expenses under the agreements to repurchase.

Net profit

As a result of the foregoing, the net profit of the life insurance segment increased by 8.7% to RMB826 million in 2013 from RMB760 million in 2012.

(2) Health Insurance

In 2013, the Group's health insurance segment further promoted its business, advanced building of professionalism, enhanced its development capability, further optimized its development strategy and launched various management tasks orderly and steadily. The TWPs amounted to RMB12,925 million, representing an increase of 11.1% compared to 2012. PICC Health also gained further progress in serving China's medical care insurance system by underwriting 395 government-commissioned projects, serving more than 100 million people. GWPs from these projects amounted to RMB4,500 million, with an increase of 14.8% as compared to 2012. PICC Health has secured its market position and continued to rank fifteen among life and health insurance companies and the top among professional health insurance companies.

1. *Analysis by Product*

Income from various products of the health insurance segment for the purpose of Original Premiums Income for the reporting periods is as follows:

	For the Year Ended 31 December			
	2013		2012	
Health insurance products	**RMB in millions**	**% of total**	RMB in millions	% of total
Illness insurance	**183**	**2.4**	154	2.0
Medical insurance	**4,839**	**64.3**	4,213	55.4
Disability losses insurance	**79**	**1.0**	71	0.9
Nursing care insurance	**879**	**11.7**	257	3.4
Accidental injury insurance	**381**	**5.1**	464	6.1
Participating endowment insurance	**1,164**	**15.5**	2,440	32.1
Total	**7,525**	**100.0**	7,600	100.0

In terms of TWPs, the TWPs of illness insurance, medical insurance, disability losses insurance and nursing care insurance in 2013 amounted to RMB183 million, RMB6,972 million, RMB79 million and RMB4,146 million, respectively, representing an increase of 19.0%, 12.5%, 10.4% and 79.7%, respectively, compared to 2012. The TWPs of accidental injury insurance and participating endowment insurance amounted to RMB381 million and RMB1,164 million, respectively, representing a drop of 17.8% and 52.3%, respectively, compared to 2012.

2. *Analysis by Channel*

Income from various products of the health insurance segment by distribution channel for the purpose of Original Premiums Income for the reporting periods, which are further divided into bancassurance channel, individual insurance agent channel and group insurance sales channel is as follows:

	For the Year Ended 31 December (RMB in millions, except for percentages)		
	2013	2012	(% change)
Bancassurance	**1,831**	2,461	(25.6)
First-year business of long-term insurance	**1,659**	2,430	(31.7)
Single premiums	**1,515**	2,268	(33.2)
First-year regular premiums	**144**	162	(11.1)
Renewal business	**170**	29	486.2
Short-term insurance	**2**	2	0.0
Individual Insurance	**363**	358	1.4
First-year business of long-term insurance	**79**	35	125.7
Single premiums	**12**	5	140.0
First-year regular premiums	**67**	30	123.3
Renewal business	**142**	123	15.4
Short-term insurance	**142**	200	(29.0)
Group Insurance	**5,331**	4,781	11.5
First-year business of long-term insurance	**4**	–	–
Single premiums	**4**	–	–
First-year regular premiums	**–**	–	–
Renewal business	**3**	3	0.0
Short-term insurance	**5,324**	4,778	11.4
Total	**7,525**	7,600	(1.0)

In terms of TWPs, the TWPs from the bancassurance, individual insurance and group insurance in 2013 amounted to RMB4,767 million, RMB659 million and RMB7,499 million, respectively.

3. *Persistency Ratio*

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

	For the Year Ended 31 December	
Item	**2013**	2012
Individual health insurance customer persistency ratio(%)		
13-month persistency ratio [(1)] (%)	**92.2**	89.7
25-month persistency ratio [(2)] (%)	**87.7**	87.2

(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 the 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 the issuance.

4. *Financial Analysis*

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

	For the Year Ended 31 December		
	2013	2012	
	(RMB in millions, except for percentages)		(% change)
Net earned premiums	**5,193**	5,326	(2.5)
Investment income	**992**	418	137.3
Other income	**113**	147	(23.1)
Total income	**6,559**	6,347	3.3
Claims and policyholders' benefits	**4,985**	4,790	4.1
Handling charges and commissions	**177**	258	(31.4)
Finance costs	**731**	707	3.4
Other operating and administrative expenses	**1,459**	1,335	9.3
Total benefits, claims and expenses	**7,354**	7,090	3.7
Profit before tax	**(795)**	(743)	–
Income tax expense	**–**	–	–
Net profit/(loss)	**(795)**	(743)	–

Net earned premiums

Net earned premiums from the health insurance segment decreased by 2.5% to RMB5,193 million in 2013 from RMB5,326 million in 2012, primarily due to the decrease in the premiums of participating insurance products.

Investment income

Investment income from the health insurance segment increased by 137.3% to RMB992 million in 2013 from RMB418 million in 2012, primarily due to the expansion of fixed-income assets allocation in 2013 as compared to a smaller scale in 2012.

Other income

Other income from the health insurance segment decreased by 23.1% to RMB113 million in 2013 from RMB147 million in 2012, primarily due to the decrease in policy initiation fees of certain universal products.

Claims and policyholders' benefits

Claims and policyholders' benefits from the health insurance segment increased by 4.1% to RMB4,985 million in 2013 from RMB4,790 million in 2012, primarily due to the increase in premiums of short-term insurance and extension in the claiming period as compared to 2012.

Handling charges and commissions

Handling charges and commissions from the health insurance segment decreased by 31.4% to RMB177 million in 2013 from RMB258 million in 2012, primarily due to the decrease in the premiums of participating insurance, the strengthened control of PICC Health in the handling charges of intermediary channels and our action to require the branches to minimize handling charges in order to improve PICC Health's efficiency.

Finance costs

Finance costs from the health insurance segment increased by 3.4% to RMB731 million in 2013 from RMB707 million in 2012, primarily due to the increase in interest expenses of financial assets sold under the agreements to repurchase.

Net loss

The net loss from the health insurance segment amounted to RMB795 million in 2013 and the net loss in 2012 amounted to RMB743 million.

Analysis of Original Premiums Income 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:

	2013	2012
	(RMB in millions)	
Jiangsu Province	25,152	21,964
Guangdong Province	25,107	22,603
Shandong Province	22,626	18,724
Zhejiang Province	21,713	19,139
Hebei Province	18,404	16,636
Sichuan Province	16,634	14,181
Beijing	15,192	13,301
Henan Province	12,640	11,779
Hubei Province	11,485	9,411
Liaoning Province	11,211	10,154
Other regions	125,639	106,757
Total	305,804	264,648

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 the asset management segment on behalf of the Group's insurance segments. The investment income generated by the investment assets managed by the asset management segment on behalf of the other segments are included in the investment income of the relevant segment.

The asset management scale of the asset management segment continued to increase. 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. Alternative investment business channel has been further expanded. PICC Investment Holding completed its registration process of property investment capacity and property investment plan product innovation capabilities. PICC Capital completed its registration process of equity investment capacity and infrastructure investment plan product innovation capabilities.

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

	For the Year Ended 31 December		
	2013	2012	
	(RMB in millions, except for percentages)		(% change)
Investment income	**431**	574	(24.9)
Other income	**811**	925	(12.3)
Total income	**1,242**	1,499	(17.1)
Finance costs	**5**	91	(94.5)
Other operating and administrative expenses	**779**	710	9.7
Total expenses	**801**	801	0.0
Profit before tax	**437**	734	(40.5)
Income tax expense	**(108)**	(436)	(75.2)
Net profit	**329**	298	10.4

Investment income

Investment income from the asset management segment decreased by 24.9% to RMB431 million in 2013 from RMB574 million in 2012, primarily due to the higher investment income realized in the transfer of a subsidiary by PICC Investment Holding in 2012 which enlarged the investment income in 2012.

Other income

Other income from the asset management segment decreased by 12.3% to RMB811 million in 2013 from RMB925 million in 2012, primarily due to the decrease in income from disposal of assets by PICC Investment Holding. However, other income from asset management fee increased by RMB109 million to RMB457 million in 2013 from RMB348 million in 2012, and the asset management fee from entrusted third-party asset management increased to RMB149 million in 2013 from RMB70 million in 2012, mainly due to rapid increases in entrusted third-party assets under PICC AMC's management and entrusted assets under the Group's management, especially the entrusted third-party assets under PICC AMC's management which increased by RMB14,894 million to RMB58,814 million as of 31 December 2013 from RMB43,920 million as of 31 December 2012.

Finance costs

Finance costs for the asset management segment decreased to RMB5 million in 2013 from RMB91 million in 2012, primarily due to a decrease in the number of subsidiaries of assets management segment within the scope of consolidation and the corresponding reduction in finance costs.

Net profit

As a result of the foregoing, net profit of the asset management segment increased by 10.4% to RMB329 million in 2013 from RMB298 million in 2012.

INVESTMENT PORTFOLIO AND INVESTMENT INCOME

(1) Investment portfolio

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

Investment assets	As of 31 December 2013 Carrying amount	% of total	As of 31 December 2012 Carrying amount	% of total
	(RMB in millions, except for percentages)			
Cash and cash equivalents	**46,607**	**7.1**	73,873	12.4
Fixed-income investments	**396,558**	**60.8**	351,363	59.0
Term deposits	**137,607**	**21.1**	120,115	20.2
Fixed-income securities	**243,756**	**37.3**	217,369	36.5
Government bonds	**19,191**	**2.9**	20,860	3.5
Finance bonds	**115,660**	**17.7**	126,589	21.2
Corporate bonds	**108,905**	**16.7**	69,920	11.7
Other fixed-income investments [1]	**15,195**	**2.3**	13,879	2.3
Equity and fund investments at fair value	**69,200**	**10.6**	93,479	15.7
Securities investment funds	**49,169**	**7.5**	44,859	7.5
Equity securities	**20,031**	**3.1**	48,620	8.2
Other investments	**140,313**	**21.5**	77,244	13.0
Subordinated debts and debts investment plans	**73,542**	**11.3**	39,110	6.6
Others [2]	**66,771**	**10.2**	38,134	6.4
Total investment assets	**652,678**	**100.0**	595,959	100.0

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

(2) Primarily consist of investment properties, derivative financial assets, investment in affiliates and associates, and equity investments recorded at cost.

(2) Investment income

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

Items	2013	2012
	(RMB in millions, except for percentages)	
Cash and cash equivalents	**789**	251
Fixed-income securities	**18,720**	16,224
Interest income	**18,856**	16,368
Net realized gains/(losses)	**(94)**	(122)
Net unrealized gains/(losses)	**(42)**	(26)
Impairment	**–**	4
Equity and fund investments at fair value	**4,887**	(60)
Dividend income	**4,459**	2,894
Net realized gains/(losses)	**3,664**	542
Net unrealized gains/(losses)	**87**	649
Impairment	**(3,323)**	(4,145)
Other investment income/(loss)	**6,404**	4,198
Total investment income	**30,800**	20,614
Total investment yield [1] (%)	**5.2**	4.2
Net investment yield [2] (%)	**5.1**	4.6

(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. *Liquidity Analysis*

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, payment of 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 the investment assets through its strategic asset allocation management to meet the liquidity requirements. The Group also obtains additional liquidity from the disposal of securities sold under agreement and other financing activities.

Substantially all of the cash flows of the Company, as a holding company, 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 Company believes that it has sufficient liquidity to meet foreseeable liquidity requirements of the Group and the Company in the foreseeable future.

2. *Statement of Cash Flows*

	2013	2012	
	(RMB in millions, except for percentages)		(% change)
Net cash flow from operating activities	**53,851**	52,522	2.5
Net cash flow used in investment activities	**(63,694)**	(70,187)	(9.3)
Net cash flow (used in)/from financing activities	**(17,009)**	36,059	–

(2) Solvency

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

	As of 31 December 2013	As of 31 December 2012	
	(RMB in millions, except for percentages)		(% change)
PICC Group			
Actual capital	**94,170**	56,075	67.9
Minimum capital	**63,491**	36,889	72.1
Solvency margin ratio (%)	**148**	152	Decrease of 4 pt
PICC P&C			
Actual capital	**52,026**	43,260	20.3
Minimum capital	**28,867**	24,771	16.5
Solvency margin ratio (%)	**180**	175	Increase of 5 pt
PICC Life			
Actual capital	**24,992**	13,955	79.1
Minimum capital	**12,386**	10,773	15.0
Solvency margin ratio (%)	**202**	130	Increase of 72 pt
PICC Health			
Actual capital	**1,575**	2,050	(23.2)
Minimum capital	**1,356**	1,263	7.4
Solvency margin ratio (%)	**116**	162	Decrease of 46 pt

As of 31 December 2013, the solvency margin ratio of the Group was 148%, representing a decrease of 4 percentage points as compared to 31 December 2012 and remained in the Adequate Solvency I category as classified by the CIRC.

As of 31 December 2013, the solvency margin ratio of PICC P&C was 180%, representing an increase of 5 percentage points as compared to 31 December 2012 and remained in the Adequate Solvency II category as classified by the CIRC. The solvency margin ratio of PICC Life was 202%, representing an increase of 72 percentage points as compared to 31 December 2012 and remained in the Adequate Solvency II category as classified by the CIRC. The solvency margin ratio of PICC Health was 116%, representing a decrease of 46 percentage points as compared to 31 December 2012 and remained in the Adequate Solvency I category as classified by the CIRC.

PROSPECTS

(1) Market Environment

In 2013, the insurance industry in China experienced an active and innovative development, showing a positive momentum of “stable advance to prosperity”. According to the statistics released by the CIRC, the Original Premiums Income of China’s insurance industry in 2013 amounted to RMB1.72 trillion, representing an increase of 11.2% as compared to 2012, in which, the Original Premiums Income of the P&C insurance companies and life and health insurance companies recorded an increase of 17.2 % and 7.9%, respectively, as compared to 2012. Total insurance assets of the insurance industry in China exceeded RMB8.2 trillion.

Under the current market situation, the insurance industry in China is in a crucial period of transformation and upgrading which accompanies with uncertainty and complexity for its development. However, it has been explicitly stated in the China Central Economic Work Conference that the economic policy for 2014 will be firmly based on steadiness with breakthrough to maintain the continuity and stability of macro-economic policy. And this would create a solid external environment for the growth of insurance industry.

As the Third Plenary of the 18th Central Committee of the CPC reaffirmed to stably execute the plan for fully promoting and deepening the reform, the government’s functions may change rapidly and there will be considerable room for the development of public service market in addition to the order development of new urbanization construction. It represents a new opportunity of growth for insurances for peoples’ welling-being and social construction, including catastrophe insurance, agriculture insurance, liability insurance, critical illness insurance, health insurance and annuity insurance.

Analyzed with the regulatory policy, the accelerated progress in insurance market reformation in China brings new and creative ideas to the supervision over insurance industry, through which the reformation to market-oriented pricing system for liability side as well as to the market-oriented fund system for asset side has been deepened. A market-oriented reformation will further release the bonus according to the policy which facilities a steady growth in the premiums as well as higher efficiency in fund use for the insurance industry.

In general, domestic economy grows stably showing a positive momentum of stable advance to prosperity with excellent fundamentals for long-term economic and social development. China continues with deepening reform, which stimulates the reform and development of the insurance industry. At present, the insurance industry in China is still at a development stage with vitally strategic opportunities which will generally maintain a positive momentum of stable advance to prosperity.

(2) Key works

In 2014, the Company will thoroughly implement the guidance from the Third Plenary of the 18th Central Committee of the CPC. "Further reform and innovation, maintenance of stable growth and emphasizing value creation" will be the basis of the Company's development plan to establish a one-stop customer-oriented operation model with an aim to strengthen fundamentals, alter our style and materialize transformation through practical public education and community activities, which in turn the Company's operation reaches a milestone through the reform. The Company aims to increase its efforts in reform and innovation, which shall also be the basis underlying various task for the year in order to get rid of the systemic constraint on the Group's continuous growth and rising value. We will firmly grasp the opportunities coming with state policy, consolidate our development of stable advance to prosperity and endeavor to improve the ability of value creation.

In the meantime, our subsidiaries will focus on sustainable development and pay more attention to value creation in order to improve business quality and operation efficiency. In 2014, PICC P&C will further strengthen its pricing system, streamline cost and expense structure to highlight vital items, strive to gain a better policy renewal rate and improve its ability to develop market and maintain its leading market position in P&C insurance; PICC Life will continue to advance its diversification in business and channels, further develop direct channels, enrich product mix, extend the applicable aspect of its products and improve the ability of embedded value creation; PICC Health will strengthen the building of professionalism, clarify its idea for operation and management for future development, learn from the success of junior teams and apply the same, solidify and take its advantage in social insurance business and further explore commercial insurance market. As for asset management, the Company will maintain professionalism development under market force, better manage the portfolio, extend business to third-party asset management and financial sector and endeavor to raise investment return. The Company will continue the deepening of business collaboration and resources sharing within and among segments, and continue to strengthen synergies and improve the overall value.

CAPITAL EXPENDITURE

The capital expenditure of the Group primarily consists of property construction, acquisition of motor vehicles for business needs and development of information systems. Capital expenditure of the Group amounted to RMB3,776 million in 2013.

PLEDGE OF ASSETS

Beijing No. 88 West Chang'an Avenue Development Company ("No. 88 Development Company"), a subsidiary of the Company, obtained a loan from China Construction Bank, the outstanding balance of which amounted to RMB496 million and RMB362 million as at 31 December 2013 and 31 December 2012, respectively. No. 88 Development Company has pledged its property located at No. 88 of West Chang'an Avenue in Beijing (net assets as at 31 December 2013: RMB3,533 million; net assets as at 31 December 2012: RMB3,571 million) for security.

Besides, certain subsidiaries of the Company sold and repurchased securities in the market for liquidity management. During the course of transaction, securities held by the Company's subsidiaries were pledged for such transactions. As at 31 December 2013, the carrying amount of relevant securities was RMB52,483 million.

CONTINGENCIES

There were a number of outstanding litigation matters against the Group as of 31 December 2013. 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 RISK

A substantial part of the Group's assets and liabilities are denominated in RMB, while 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 risks as a result of changes in the exchange rates between RMB and these currencies. During the year, the Group converted the proceeds of HK$22,000 million from listing in Hong Kong into RMB in order to mitigate its foreign exchange risk.

INTEREST RATE RISK

Our exposure to interest rate risk predominantly arises from investments in fixed income debt securities which are exposed to fluctuations in interest rates, resulting in a change in fair value, and investments in products such as floating income debt securities, future investment return from which is affected as a result of fluctuations in interest rates. We regularly monitor and assess our interest rate risk by conducting sensitivity analysis and stress tests based on the gap analysis 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 financial derivatives, such as interest rate swaps, to hedge part of its interest rate risk.

Directors, Supervisors, Senior Management and Employees

EXECUTIVE DIRECTORS

Mr. Wu Yan, aged 52, is an Executive Director and the Chairman of the board of directors of the Company (the “Board”), and a Senior Economist. 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 Hong Kong Stock Exchange, 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 and president (but 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 directors of PICC P&C since March 2007, PICC Life since April 2007 and PICC AMC since January 2008. Mr. Wu has been a director of The Geneva Association since June 2010. Mr. Wu was awarded the Special Government Allowance by the State Council of the PRC (the “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 53, is an Executive Director, Vice Chairman and president of the Company, and a Senior Accountant. 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 vice president and chief financial officer of PICC P&C in July 2003; vice-chairman and president from August 2008 to October 2013; and an executive director in July 2003. Since December 2013, Mr. Wang has been reappointed as a non-executive director. He also served as a director of PICC AMC from November 2006 to April 2010. In March 2009, Mr. Wang was appointed as the vice-president of the Company and an Executive Director and vice president in September 2009. Since October 2013, Mr. Wang has been appointed as Executive Director, Vice Chairman and president. Mr. Wang has been the deputy president of the Insurance Association of China from September 2008 to January 2014 and deputy president of the China Association of Actuaries since April 2011 as well as the vice chairman of the Insurance Institute of China since January 2014. 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 Economics and graduated from Zhongnan University of Economics and Law in December 2003 with a Doctoral Degree in Economics.

Ms. Zhuang Chaoying, aged 55, is an Executive Director, a vice president of the Company and a Deputy Editor and Senior Enterprise Risk Manager. 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, 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 has been a deputy general manager (vice president) of the Company since December 2006 and an Executive Director since March 2014. She also served as chairman of the board of supervisors of PICC Life since August 2007. Ms. Zhuang did not hold any directorship in any other listed companies in the last three years. Ms. Zhuang has also been a director of The Insurance Institute of China since November 2011 and a vice chairman since January 2014. 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 the China Europe International Business School in September 2010.

Mr. Zhou Liqun, aged 50, is an Executive Director, vice president of the Company and a Senior Accountant. 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 head office. 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 Hong Kong Stock Exchange, 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 directors 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 has been a director, vice chairman of the board of directors and president of PICC AMC since August 2007 (he ceased to be vice chairman of the board of directors and president of PICC AMC since January 2014), and vice president of the Company since March 2009 as well as an Executive Director since March 2014. He has also been the chairman of the board of directors 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 from January 2011 to November 2013. Mr. Zhou did not hold any directorship in any other listed companies in the last three years. Mr. Zhou has been a standing director of the Insurance Institute of China since November 2011, vice president of the Banking Accounting Society of China since May 2013 and a standing director of the Insurance Association of China since January 2014. Mr. Zhou graduated from Xiamen University in June 1997 with a Doctoral Degree in Economics.

NON-EXECUTIVE DIRECTORS

Mr. Yao Zhiqiang, aged 56, is a Non-executive Director of the Company and a Senior Accountant. Mr. Yao was a teacher of the economics department, vice-officer of the school office and chief of finance department in Liaoning Province Grain School (糧食學校) from 1982 to 1987. Mr. Yao was the senior staff and deputy director of the Central Enterprise Department of Liaoning Provincial Department of Finance from 1987 to 1995. He was the chief director and assistant commissioner of Liaoning Commissioner Office of Department of Finance from 1995 to 2003 and a party member, deputy inspector and inspector of Liaoning Commissioner Office of Department of Finance since 2003 until now. Mr. Yao has been a Non-executive Director of the Company since March 2014. Mr. Yao did not hold any directorship in any other listed companies in the last three years. He graduated from Liaoning Finance Institute with a major in business administration in 1982.

Mr. Wang Qiao, aged 56, is a Non-executive Director of the Company. He served in the People's Liberation Army as a force warrior of team 39172, group leader of team 39420 and staff officer from 1977 to 1989. Mr. Wang was also the section chief of the Cultural, Educational, Administrative and Financial Department of the Department of Finance, secretary of Public Expenditure Department and secretary and chief of Administration, Politics and Law Division from 1989 to 2011. He has been appointed as the deputy inspector of the Administration, Politics and Law Division of the Department of Finance since September 2011. Mr. Wang has been a Non-executive Director of the Company since March 2014. Mr. Wang did not hold any directorship in any other listed companies in the last three years. He graduated from Air Force Engineering College majored in automatic control and Distance Learning Institute of the Chinese Communist Party majored in economics.

Ms. Li Shiling, aged 58, is a Non-executive Director of the Company, obtained a bachelor's Degree in Law and a postgraduate degree from Communist Party Central Academy Research Institute. She is a Senior Economist. She started her career in January 1974 and worked as a political economy teacher and an office deputy director (in charge of daily operations) of The Bank of Hunan school, an assistant to office director, deputy chief of financial institutions management office of the People's Bank of China Hunan Branch, an assistant to the branch manager of Chang De branch, the director of non-bank financial institutions management office and the director of insurance division business integrated office of the People's Bank of China. From November 1998 to 2013, Ms. Li worked in the CIRC as the director of the Department of Policy and Regulation, the deputy chief and party committee of Tianjin Office, the deputy chief and inspector of the General Office as well as the inspector and deputy chief (in charge of daily operations). She has been serving as the director of Insurance Consumer Protection Bureau since May 2012. Ms. Li has been a Non-executive Director of the Company since March 2014. Ms. Li did not hold any directorship in any other listed companies in the last three years.

Ms. Zhang Hanlin, aged 60, is a Non-executive Director of the Company and a Deputy Researcher. Ms. Zhang was the deputy chief of the Policy and Regulation Division of Ministry of Commerce from 1991 to 1993, the chief, party committee secretary of the State Grainary Reserve Bureau, person in charge, inspector and chief of the center of Central Reserve Office from 1993 to 2007. 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. Ms. Zhang worked at the China Investment Corporation from September 2007 to March 2012, and served successively as controller of the operational department, director, director of the general office and a member of the party committee. Since April 2012, Ms. Zhang has been a Non-executive Director of the Company. Ms. Zhang did not hold any directorship in any other listed companies in the last three years. Ms. Zhang graduated from Liaoning University in July 1984 majored in Economic Management and a Doctoral Degree in Economics from the Graduate School of the Chinese Academy of Social Sciences in 1991.

Mr. Ma Qiang, aged 54, is a Non-executive Director of the Company. Mr. Ma served as an official of the Tianjin Bureau of Statistics from April 1982 to June 1987, the cadre and the officer of the general office of the Tianjin Municipal People's Government from June 1987 to October 1995, and the deputy division head of the fund management division, the deputy division head of the budget division, the division head of the fund management division as well as of the budget division of Tianjin Bureau of Finance from December 1995 to July 2001. He also served as the deputy chief and the member of the party leadership group, the deputy chief and the deputy secretary of the party leadership group (bureau level) of Tianjin Finance Bureau, also Tianjin Local Taxation Bureau, from July 2001 to December 2010. Mr. Ma has been the director of the equity management department (Industrial Investment Department) of National Council for Social Security Fund since December 2010. He has been a non-executive director of Bank of Communications Co., Ltd. (listed on the Shanghai Stock Exchange, stock code: 601326; the Hong Kong Stock Exchange, stock code: 3328) since September 2011. Since March 2014, Mr. Ma has been appointed as a Non-executive Director of the Company. He graduated from the Internet Faculty of Hunan University in 2004 majored in finance.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Xiang Huaicheng, aged 75, 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 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 66, 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 12th 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 Hong Kong Stock Exchange: Franshion Properties (China) Limited, Glorious Sun Enterprises Limited, Yuexiu Transport Infrastructure Limited, Yuexiu Property Company Limited, COFCO Land Holdings 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 Central and Western District Council 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 (he was a member of the Provisional Legislative Council between 1997 and 1998). Mr. Lau was the standing committee member of the 10th and 11th National Committee of the Chinese People's Political Consultative Conference. Mr. Lau graduated from the University of London in July 1969 with a Bachelor of Laws Degree.

Mr. Du Jian, aged 72, 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 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 Finance.

Mr. Xu Dingbo, aged 50, 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, where he currently serves as the school's Essilor chair Professor of Accounting, associate dean of Academic Affairs and a member of the Managing Committee, and has served as a 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 (listed on Shenzhen Stock Exchange, stock code: 002713) since December 2010. Since December 2012, Mr. Xu has served as an independent director and chairman of the audit committee of Shanghai Shyndec Pharmaceutical Co., Ltd (listed on the Shanghai Stock Exchange, stock code: 600420). Mr. Xu has served as independent director of Sany Heavy Industry Co., Ltd (listed on the Shanghai Stock Exchange, stock code: 600031) since January 2013 and as the chairman of the audit committee since July 2013. Since June 2013, Mr. Xu has served as an independent director and chairman of the audit committee of China Cinda Asset Management Co., Ltd. (listed on Hong Kong Stock Exchange, stock code: 01359). 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 committees 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 Hong Kong Stock Exchange (the "Listing Rules").

Mr. Luk Kin Yu, Peter, aged 73, is an Independent Non-executive Director of the Company. Mr Luk is a fellow member of the Institute and Faculty of Actuaries in England, the Institute of Actuaries of Australia and the Society of Actuaries in the United States of America, respectively. Mr Luk was previously the chief actuary of American International Assurance Company, Limited, the chief financial officer of the Pacific-Asia Division of Manulife Insurance Co., Ltd., the appointed actuary of Australian Casualty and Life Insurance Co., Ltd., the senior actuary of Mercer, Campbell, Cook & Knight, and an executive director and the chief financial officer of Pacific Century Insurance Holdings Limited. Mr Luk was the president of the Actuarial Society of Hong Kong when it was founded and the President of the society for a considerable number of sessions. Mr Luk was a member of the Advisory Committee of Insurance, Financial and Actuarial Analysis of The Chinese University of Hong Kong and the chairman of the Advisory Committee of the Department of Mathematics of City University of Hong Kong. He is the chief executive officer of Plan-B Consulting Limited, an independent non-executive director of HSBC Life Insurance (International) Limited and HSBC Insurance (Asia) Limited. Since April 2005, Mr. Luk has been the independent non-executive director of PICC P&C and he has been appointed as the Independent Non-executive Director of the Company since December 2013. Mr Luk has substantial experience in the insurance industry.

SUPERVISORS

Mr. Lin Fan, aged 54, 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 of directors, deputy general manger, general manager and chairman of the board of directors of China Insurance (Holdings) Company Limited. Mr. Lin served as the chairman of the board of directors 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 directors of The Ming An (Holdings) Company Limited and chairman of the board of directors of China Taiping Insurance Holdings Company Limited (listed on the Hong Kong Stock Exchange, stock code: 0966). Mr. Li has been a Supervisor and chairman of the Board of Supervisors of the Company since March 2012. Mr. Lin graduated from the University of South Australia in August 2006 with a Master’s Degree in Business Administration.

Mr. Yu Ning, aged 60, is an Independent Supervisor of the Company and a lawyer. He served in the army from 1969 to 1978 (114th Division of the 38th Army). He worked in Zhenjiang Health Office, Jiangsu province as an administrative officer from May 1978 to August 1979. Mr. Yu served as deputy director and director of Central Disciplinary Inspection Commission of the Chinese Communist Party from August 1983 to May 1994. He established Beijing Times Highland Law Firm in 1994 and worked as a practicing lawyer until 2005; from 1999 to 2005, he was the fourth and fifth vice president of the All China Lawyers Association. From 2005 to 2011, he was the sixth and seventh president of the All China Lawyers Association. Since 2012, Mr. Yu has been serving as the chairman of Grandall Legal Group. Meanwhile, Mr. Yu also served as an external director of China Mobile Limited, and an independent director of China CSSC Holdings Limited (listed on the Shanghai Stock Exchange, stock code: 600150), Bank of Beijing Co. Ltd (listed on the Shanghai Stock Exchange, stock code: 601169), BOE Technology Group Co., Ltd. (listed on the Shenzhen Stock Exchange, stock code: 000725), United Mechanical & Electrical Co. Ltd (listed on the Shenzhen Stock Exchange, stock code: 000925), Intime Retail (Group) Company Limited (listed on the Hong Kong Stock Exchange, stock code: 1833) and Beijing Enterprises Water Group Limited (listed on the Hong Kong Stock Exchange, stock code: 0371). He was a member of the eleventh National Committee of the Chinese People’s Political Consultative Conference (CPPCC) and a member of the Social and Legal Affairs Committee of the CPPCC. Since March 2014, Mr. Yu has been appointed as an Independent Supervisor of the Company. He graduated from Peking University in 1983 with a Bachelor’s Degree in Law and also obtained a Master’s Degree in Economic Law from Peking University in 1996.

Mr. Xu Yongxian, aged 50, 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. Li Yongmei, aged 46, is a Supervisor representative of employees of the Company and a Senior Economist. She worked in the National Audit Office since August 1989 and served as vice commissioner of the Audit Office in the Ministry of Commerce, vice commissioner of the Audit Office in the Ministry of Internal Trade, deputy chief and chief of Development and Planning Audit Office until July 2001. In August 2001, Ms. Li was the chief executive financial officer, chief information officer, chief commercial officer and deputy general manager of Beijing Zhonghongjin Information Company Limited (北京中宏金資訊有限公司). She joined the Company in June 2005, and served successively as a member of company organization committee and the chief director of audit department of the ministry of audit and supervision of PICC Life and the deputy general manager of the ministry of audit and supervision/inspection office of the Company (in charge of daily operations) until October 2011. Since November 2011, she has been the general manager of the ministry of audit and supervision/inspection office of the Company. She has been serving as a Supervisor of Zhongsheng International since March 2008 and a Supervisor of No. 88 Development Company since March 2011. Since March 2014, Ms. Li has been appointed as a Supervisor representative of employees of the Company. Ms. Li did not hold any directorship in any listed companies in the last three years. She graduated from Beijing Business School (currently known as Beijing Technology and Business University) with a Bachelor's Degree in Financial Management in August 1989.

Ms. Yao Bo, aged 54, is a Supervisor representative of employees of the Company, 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 a 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. Wang Yincheng. Please refer to the section titled "Executive Directors" for the biography of Mr. Wang Yincheng.

Ms. Zhuang Chaoying. Please refer to the section titled "Executive Directors" for the biography of Ms. Zhuang Chaoying.

Mr. Zhou Liqun. Please refer to the section titled "Executive Directors" for the biography of Mr. Zhou Liqun.

Mr. Li Yuquan, aged 48, is a vice president of the Company and an Associate Professor. 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 of directors and president of PICC Health from August 2007 to September 2013, and vice president of the Company since March 2011. Mr. Li has been appointed as a Supervisor representative of employees of the Company. 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 has served as a director of The Insurance Institute of China from November 2011 to January 2014. Mr. Li was awarded the Special Government Allowance by the State Council in August 2005. Mr. Li graduated from Zhejiang University in July 1986 with a Bachelor's Degree in Law and obtained a Master's Degree in Law in July 1989 and a Doctoral Degree in Law in July 1994 from Wuhan University.

Mr. Tang Zhigang, aged 49, is a vice president of the Company and a Senior Economist. Mr. Tang worked in the Agricultural Bank of China from July 1988 to July 1994 and served as a deputy director of restructuring commission of research office. From July 1994 to September 2013, Mr. Tang worked in the Agricultural Bank of China and served as a deputy director of research office of general administrative office, a deputy division director, director, assistant to the chief of Jiangsu branch, deputy officer of administrative office of headquarters, manager of the research division, chief of Jiangsu branch, head of the preparation committee of international business of headquarters, general manager of the international department and director of the office, as well as the assistant to the president and director of office of the Agricultural Bank of China since February 2013. Since September 2013, he has been appointed as a vice president of the Company. Mr. Tang did not hold any directorship in any listed companies in the last three years. Mr. Tang graduated from Hunan Institute of Finance in July 1985 with a Bachelor's Degree in Economics and obtained a Master's Degree in Economics from PBOC Research Institute of Finance and Banking in July 1988.

Ms. Yu Xiaoping, aged 56, is a vice president 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 president (bureau level) of the Shenzhen branch from March 1994 to January 2010. Ms. Yu has served as a chief investment officer of the Company from January 2010 to January 2014 and she has been appointed as a vice president of the Company since October 2013. Ms. Yu has served as a director of China Credit Trust Company Limited from November 2010 to December 2013, non-executive director of PICC P&C since January 2011 and chairman of the board of directors of No. 88 Development Company since March 2011. Ms. Yu graduated from Tongji University in January 1982 with a Bachelor's Degree in Science and from Renmin University of China in July 1988 with a Bachelor's Degree in Economics.

Mr. Sheng Hetai, aged 43, 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 since February 2005 and the chairman of its board of directors (subject to the approval by the regulatory departments) since February 2014, and supervisor of PICC P&C since August 2006. He has been the chairman of the board of directors of Zhongsheng International Insurance Brokers Co., Ltd and the chairman of the board of directors of China Insurance Brokers Co., Ltd (subject to the approval by the regulatory departments) since November 2013. 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 and executive director since January 2014. Mr. Sheng graduated from Peking University in July 1998 with a Doctoral Degree in Economics.

Mr. Han Kesheng, aged 48, 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 PICC P&C. 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 Literature.

Mr. Li Tao, aged 47, 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 directors 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 February 2008 to September 2009 and has been the secretary to the Board since September 2009. He has been the secretary to the Board/general manager of the office of the Board of Supervisors since January 2010 and standing deputy director of the listing office since May 2011. 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 Economics.

Mr. Zhao Jun, aged 53, 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 Science.

Mr. Zhou Houjie, aged 49, 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 Economics and the Shanghai National Accounting Institute in June 2005 with an Executive Master of Business Administration Degree.

EMPLOYEES

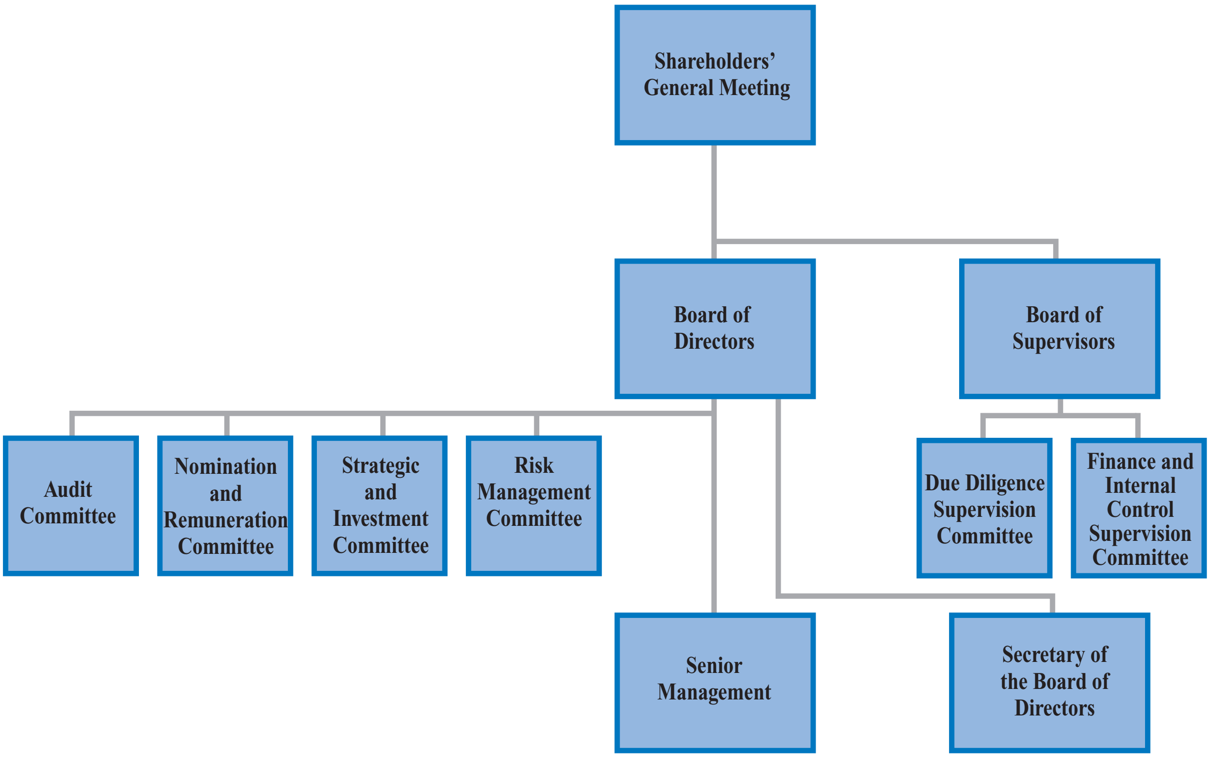
As at 31 December 2013, the Group had a total of 182,295 employees, including regular empolyees and contract labor staff. For the year ended 31 December 2013, staff salaries paid to the employees by the Company and its subsidiaries were approximately RMB23.411 billion in total, which mainly included fixed salaries, performance bonuses as well as contributions to insurance and benefit plans for employees in accordance with relevant PRC regulations. The Company and its subsidiaries enhance the performance and efficiency of employees by various measures such as providing career development channels, strengthening staff training and implementing performance review.

OVERVIEW

The Company has been in strict compliance with the Company Law of the People's Republic of China (the "Company Law"), the Insurance Law of the People's Republic of China and other applicable laws and regulations, fully applied the requirements under the Listing Rules, the Guiding Opinions on Regulating the Corporate Governance Structure of Insurance Companies (Tentative) and the Articles of Association ("Articles of Association"), adhered to the principles of good corporate governance and focused on enhancing its level of corporate governance to ensure the stable development of the Company and endeavor to create greater value for shareholders.

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 Company had complied with all other code provisions of the Corporate Governance Code in 2013, adopted recommended best practices under appropriate circumstances and continued to perfect its corporate governance structure. The general meeting, the Board, the Board of Supervisors and the 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 corporate governance structure chart of the Company is set out below:



During the reporting period in accordance with regulatory requirements, the Company has amended the Articles of Association, the procedural rules for the shareholders general meeting, the procedural rules for the Board meeting and the procedural rules for the Board of Supervisors meeting to change the composition of the Board and the Board of Supervisors (including adding a new position for Vice Chairman), set up rules and systems for two committees under the Board of Supervisors and improve the corporate governance system. Please refer to the circular of the Company dated 11 November 2013 for details of the aforementioned amendments.

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 Board 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 alteration in 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, procedural rules for the shareholders' general meeting, the Board meeting and the Board of Supervisors meeting; (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 three general meetings, and the major matters put forward for consideration and approval at the meetings included:

- Considered and approved the proposal of setting up the Company's northern information center.
- Considered and approved the reports of the Board and the Board of Supervisors for the year 2012;
- Considered and approved the resolution concerning the financial report of the Company for the year 2012;
- Considered and approved the resolution concerning the Company's profit distribution plan for the year 2012;
- Considered and approved the Company's investment budget for fixed assets in 2013.
- Considered and approved the Company's purchase of the equities interests held by its subsidiaries in No. 88 Development Company.
- Considered and approved the proposals of electing Directors of the second session of the Board and Supervisors of the second session of the Board of Supervisors.
- Considered and approved the amendments to the Company's Articles of Association, the procedural rules for the shareholders' general meeting, the procedural rules for the Board meeting and the procedural rules for the Board of Supervisors meeting.
- Considered and approved the remuneration settlement scheme for the Directors and Supervisors of the Company in 2012.

SHAREHOLDERS' GENERAL MEETING *(continued)*

- Considered and approved the remuneration for the Independent Directors and Independent Supervisors.
- Considered and approved the engagement of auditor for 2013 financial report.
- Considered and approved the renewal of the liability insurances for the Directors, Supervisors and senior management of the Company.
- Received the performance report of the Directors of the Company for the year 2012 and performance report of the Independent Directors of the Company for the year 2012.

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 the 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 2013, 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.

During 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
Wang Yincheng	Vice Chairman of the Board and 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
Xiang Huaicheng	Independent Non-executive Director	18 November 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:

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 as set out in Appendix 14 to the Listing Rules: Each Director shall retire from office by rotation at least once every three years.

THE BOARD *(continued)*

Composition *(continued)*

On 27 December 2013, the Company held the second extraordinary general meeting of the Company in 2013 for the purpose of electing Mr. Wu Yan, Mr. Wang Yincheng, Ms. Zhuang Chaoying and Mr. Zhou Liqun as the Executive Directors for the second session of the Board; electing Mr. Yao Zhiqiang, Mr. Wang Qiao, Ms. Li Shiling, Ms. Zhang Hanlin and Mr. Ma Qiang as the Non-executive Directors for the second session of the Board; and electing Mr. Xiang Huaicheng, Mr. Lau Hon Chuen, Mr. Du Jian, Mr. Xu Dingbo and Mr. Luk Kin Yu, Peter as the Independent Non-executive Directors for the second session of the Board. The qualifications of Ms. Zhuang Chaoying, Mr. Zhou Liqun, Mr. Yao Zhiqiang, Mr. Wang Qiao, Ms. Li Shiling and Mr. Ma Qiang as the Directors of the Company have been approved by the CIRC in March 2014. Since the qualification of Mr. Luk Kin Yu, Peter as a Director of the Company is still subject to the approval of the CIRC, Mr. Cai Weiguo shall therefore continue to serve as a Director of the Company.

Mr. Li Liangwen, Mr. Cao Guangsheng, Mr. Liu Yeqiao and Mr. Qi Shaojun retired from office with effect from March 2014. Mr. Cai Weiguo will also retire from office upon the qualification of Mr. Luk Kin Yu, Peter as a Director has been obtained. Please refer to the section "Directors, Supervisors, Senior Management and Employees" in the Company's 2012 Annual Report for Directors' biographies.

On 25 October 2013, the Company convened the seventh meeting of the first session of the Board, at which Mr. Wang Yincheng was elected as the Vice Chairman of the first session of the Board.

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 three general meetings in total, made 34 proposals to the shareholders' general meeting for review and approval and submitted two reports; convened eight Board meetings, reviewed and approved 44 resolutions and received seven reports. The major matters included formulating the annual operation plan and financial budget; making annual assessment for the Directors and senior management; approving proposals in relation to the annual report and annual result announcement for the year 2012, setting up asset management institution in Hong Kong, the interim report and interim result announcement for the year 2013 and the engagement of auditor for the annual financial report; amending the Articles of Association and the procedural rules for the shareholders' general meeting and the procedural rules for the Board meeting as well as the terms of reference for the nomination and remuneration committee; electing the Vice Chairman for the first session of the Board; engaging president and vice president of the Company; nominating candidates for the second session of the Board; reviewing the proposals in relation to the capital increase in PICC Health; reviewing and approving the Company's reports concerning internal control, compliance management and risk control; and making comprehensive evaluation on the corporate governance of the Company for the year 2012.

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	3/3	100%
Wang Yincheng	0/3	0%
Li Liangwen	1/3	33.3%
Cao Guangsheng	3/3	100%
Liu Yeqiao	3/3	100%
Qi Shaojun	3/3	100%
Zhang Hanlin	3/3	100%
Xiang Huaicheng	0/3	0%
Lau Hon Chuen	2/3	66.7%
Du Jian	3/3	100%
Cai Weiguo	2/3	66.7%
Xu Dingbo	2/3	66.7%

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	6/8	75%	2/8	25%
Wang Yincheng	7/8	87.5%	1/8	12.5%
Li Liangwen	5/8	62.5%	3/8	37.5%
Cao Guangsheng	8/8	100%	0/8	0%
Liu Yeqiao	8/8	100%	0/8	0%
Qi Shaojun	8/8	100%	0/8	0%
Zhang Hanlin	8/8	100%	0/8	0%
Xiang Huaicheng	6/8	75%	2/8	25%
Lau Hon Chuen	8/8	100%	0/8	0%
Du Jian	8/8	100%	0/8	0%
Cai Weiguo	6/8	75%	2/8	25%
Xu Dingbo	6/8	75%	2/8	25%

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

- Convened three general meetings;
- Considered and approved the operation plans and financial budget of the Company for the year 2013;
- Considered and approved the resolutions concerning the financial report and the profit distribution plan for the year 2012;
- Considered and approved the resolutions concerning the annual report and annual result announcement for the year 2012 as well as the interim report and interim result announcement for the year 2013;
- Considered and approved the renewal of the liability insurances for the Directors, Supervisors and senior management of the Company;
- Considered and approved the resolutions concerning the application to the CIRC in relation to equity investment capability and property investment capability;
- Considered and approved the amendments to the Articles of Association and the procedural rules for the shareholders' general meeting and Board meeting and approved the amendments to the terms of reference for the nomination and remuneration committee;
- Considered and approved the resolutions concerning the setting up of the Company's northern information center and the investment for phase 2 construction of the southern information center;

THE BOARD *(continued)*

Summary of Work Undertaken *(continued)*

- Considered and approved the Company's self-assessment report on internal control, risk evaluation report, compliance report, corporate governance report and assessment report on the implementation of business plan for the year 2012;
- Considered and approved the resolutions concerning the setting up of an asset management institution in Hong Kong;
- Elected the Vice Chairman of the first session of the Board and engaged the president and vice president of the Company;
- Nominated the candidates for the second session of the Board;
- Considered and approved the remuneration settlement scheme for the key personnel of the Company as well as the remuneration package for Independent Directors and Independent Supervisors;
- Considered the engagement of auditor for financial report for the year 2013;
- Considered and approved the resolution in relation to the capital increase in PICC Health;
- Received the performance reports of the Directors for the year 2012 and performance reports of the Independent Directors of the Company for the year 2012, reports on the Company's connected transactions and the implementation of its connected transactions management system for the year 2012, report on specific auditing results of connected transactions of the Company for the year 2012, internal audit work summary of the Company for the first half of 2013 and the report on the H share listing.

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 10 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.

Training of Directors

All Directors (Mr. Wu Yan, Mr. Wang Yincheng, Mr. Li Liangwen, Mr. Cao Guangsheng, Mr. Liu Yeqiao, Mr. Qi Shaojun, Ms. Zhang Hanlin, Mr. Xiang Huaicheng, Mr. Lau Hon Chuen, Mr. Du Jian, Mr. Cai Weiguo and Mr. Xu Dingbo) 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 of 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 was vacant from March 2012 to October 2013. On 25 October 2013, the Company convened the seventh meeting of the first session of the Board in 2013, at which Mr. Wang Yincheng was appointed as the president of the Company. On 10 December 2013, the qualification of Mr. Wang Yincheng as the president of the Company has been approved by the CIRC. 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.

DIRECTORS *(continued)*

BOARD COMMITTEES

There 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 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:	Mr. Xu Dingbo (Independent Non-executive Director)
Members:	Mr. Lau Hon Chuen (Independent Non-executive Director), Mr. Cao Guangsheng (Non-executive Director)

In March 2014, Mr. Xu Dingbo was elected as the Chairman of the audit committee, Mr. Lau Hon Chuen, Mr. Luk Kin Yu, Peter* and Mr. Yao Zhiqiang were elected as members of the audit committee, at the second meeting of the second session of the broad of Directors of the Company.

Note (*): Mr. Luk Kin Yu, Peter shall become a member of the audit committee upon receiving approval from the CIRC in relation to his qualification as a Director.

BOARD COMMITTEES *(continued)*

Audit Committee *(continued)*

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.

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, 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

In 2013, Ernst & Young/Ernst & Young Hua Ming LLP ("Ernst & Young") was appointed as the auditor to review the interim result. The fee in respect of audit services provided to the Company and its subsidiaries by Ernst & Young was RMB9.30 million. In 2013, the fee in respect of audit services provided to the Company and its subsidiaries by Deloitte Touche Tohmatsu CPA Limited (Special General Partnership)/Deloitte Touche Tohmatsu ("Deloitte") was RMB18.20 million, which included the tender price of RMB16.80 million offered by Deloitte. The aggregate amount was RMB27.50 million.

Summary of Work Undertaken

During the year, the audit committee held five meetings, of which 17 proposals were reviewed and approved. Attendance of the members were as follows:

Name	Xu Dingbo	Lau Hon Chuen	Cao Guangsheng
Attendance in person/scheduled attendance	5/5	5/5	5/5
Percentage of attendance in person	100%	100%	100%
Attendance by proxies/scheduled attendance	0/5	0/5	0/5
Percentage of attendance by proxy	0%	0%	0%

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 for the year 2012;
- Reviewed and assessed the internal audit work summary for the year 2012 and for the first half of 2013 and the audit work plan and budget for the year 2013;
- Reviewed and assessed the self-assessment program on internal control and self-assessment report on internal control for the year 2012 and assessed the proposal of authorizing the president office to assess and approve the program on internal control assessment of the Group;
- Reviewed and assessed the resolution in relation to the engagement of auditor for the financial report for the years 2012 and 2013;
- Reviewed and assessed the management discussion and analysis, result announcement and annual report for the year 2012 as well as the interim result announcement and interim report for the year 2013;
- Received Ernst & Young's advice for management for the year 2012 and Ernst & Young's review of the interim financial statements for the year 2013.

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:	Mr. Xiang Huaicheng (Independent Non-executive Director)
Members:	Mr. Du Jian (Independent Non-executive Director), Mr. Xu Dingbo (Independent Non-executive Director), Mr. Liu Yeqiao (Non-executive Director), Mr. Qi Shaojun (Non-executive Director)

In March 2014, Mr. Xiang Huaicheng was elected as the Chairman of the nomination and remuneration committee, and Mr. Du Jian, Mr. Xu Dingbao, Mr. Luk Kin Yu, Peter* and Mr. Wang Qiao were elected as the members of the nomination and remuneration committee, at the first meeting of the second session of the broad of Directors of the Company.

Note (*): Mr. Luk Kin Yu, Peter shall become a member of the nomination and remuneration committee upon receiving approval from the CIRC in relation to his qualification as a 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.

BOARD COMMITTEES *(continued)*

Nomination and Remuneration Committee *(continued)*

Duties and Responsibilities (continued)

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) fully consider the board diversity, 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.

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 fully considers the board diversity (including but not limited to sex, age, cultural and educational background, expertise, experience, skills, knowledge and term of office) and its advantages, and 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.

BOARD COMMITTEES *(continued)*

Nomination and Remuneration Committee *(continued)*

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. The Company adjusted the remuneration package of Independent Directors and Independent Supervisors during the year.

Summary of Work Undertaken

During the year, the nomination and remuneration committee held one meeting, at which ten 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	1/1	1/1	1/1	1/1	1/1
Percentage of attendance in person	100%	100%	100%	100%	100%
Attendance by proxy/scheduled attendance	0/1	0/1	0/1	0/1	0/1
Percentage of attendance by proxy	0%	0%	0%	0%	0%

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

- Reviewed and considered the related matters concerning the election of the Vice Chairman for the first session of the Board;
- Taking into account the board diversity policy, reviewed the matters in relation to the nomination of the candidates of the second session of the broad of the Company, including nominating two female Directors, and made nomination recommendations to the Board;
- Reviewed the nomination of Tang Zhigang and Yu Xiaoping as vice president of the Company, and made recommendations to the Board, which has been approved by the Board;
- Reviewed the related matters on amendments to the Terms of Reference for the Nomination and Remuneration Committee of the People's Insurance Company (Group) of China Limited;
- Reviewed and considered the implementation of the performance appraisal and incentive scheme of the Company for the year 2012;
- Reviewed and considered the compensation plan of the Company's key personnel for the year 2012;

BOARD COMMITTEES *(continued)*

Nomination and Remuneration Committee *(continued)*

Summary of Work Undertaken (continued)

- Considered the remuneration settlement scheme for Directors and Supervisors of the Company for the year 2012;
- Considered the remuneration package of Independent Directors and Independent Supervisors.

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: Mr. Wu Yan (Executive Director)

Members: Mr. Xiang Huaicheng (Independent Non-executive Director), Mr. Cao Guangsheng (Non-executive Director), Ms. Zhang Hanlin (Non-executive Director)

Pursuant to the Articles of Association, Mr. Wu Yan, the chairman of the Board, acts as the Chairman of the strategy and investment committee of the second session of the Board. In March 2014, Mr. Wang Yincheng, Mr. Xiang Huaicheng, Mr. Yao Zhiqiang and Ms. Zhang Hanlin were elected as the members of the strategy and investment committee, at the second meeting of the second session of the Board.

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 12 proposals were reviewed and considered. Attendance of the members were as follows:

Name	Wu Yan	Xiang Huaicheng	Cao Guangsheng	Zhang Hanlin
Attendance in person/scheduled attendance	6/6	6/6	6/6	6/6
Percentage of attendance in person	100%	100%	100%	100%
Attendance by proxy/scheduled attendance	0/6	0/6	0/6	0/6
Percentage of attendance by proxy	0%	0%	0%	0%

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 the related matters on setting up the Company's northern information center and the investment for phase 2 construction of southern information center;
- Reviewed and considered the purchase of equity interests in No. 88 Development Company held by its subsidiaries;
- Reviewed and considered the related matters on setting up asset management company in Hong Kong;
- Reviewed and considered the operation plan and financial budget of the Company for the year 2013;
- Reviewed and considered the corporate governance report of the Company for the year 2012;
- Reviewed and considered the financial report of the Company for the year 2012 and the related matters on profit distribution for the year 2012;
- Considered the matters on amendments to the Articles of Association and related procedural rules;
- Reviewed and considered the related matters on capital increase in PICC Health;
- Considered the evaluation report for the implementation of the Group's planning for the year 2012;
- Considered the Company's application for the qualification of engaging in stock and index future transactions.

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:	Mr. Cai Weiguo (Independent Non-executive Director)
Members:	Mr. Wang Yincheng (Executive Director), Mr. Li Liangwen (Executive Director), Mr. Liu Yeqiao (Non-executive Director), Mr. Qi Shaojun (Non-executive Director)

In March 2014, Mr. Lau Hon Chuen was elected as the Chairman of the risk management committee, and Ms. Zhuang Chaoying, Mr. Zhou Liqun, Mr. Wang Qiao, Ms. Li Shiling and Mr. Ma Qiang were elected as the members of the risk management committee, at the second meeting of the second session of the broad of Directors of the Company.

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 one meeting, 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	1/1	1/1	1/1	1/1	1/1
Percentage of attendance in person	100%	100%	100%	100%	100%
Attendance by proxy/scheduled attendance	0/1	0/1	0/1	0/1	0/1
Percentage of attendance by proxy	0%	0%	0%	0%	0%

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

- Reviewed and considered the renewal of liability insurances for the Directors, Supervisors and senior management of the Company;
- Reviewed and considered the Compliance Report of the Company for the year 2012;
- Reviewed and considered the Risk Evaluation Report of the Company for the year 2012.
- Reviewed and assessed the half-year compliance report of the Company for the year 2013.

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, China Securities Regulatory Commision National Audit office of the People's Republic of China, 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, perfected the internal control system, executed internal control with 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 2013, the Company carried out comprehensive self-assessments of internal control evaluation covering the entire Group. Through optimized internal control evaluation strategy, we widened the aspect of internal control evaluation, further ratified the deficiency of internal control evaluation while the Company and its subsidiaries has further optimized the internal control procedures and perfected internal control measures.

In 2013, by virtue of the establishment and formal implementation of internal control management system, risk indicator monitoring and warning system, the Company continued to optimize the dynamic monitoring mechanism for internal control management and risk, enhanced the informationalization of the Group's internal control and steadily advanced the establishment of the internal control management system. PICC P&C started the establishment of operational risk management platform to combine procedure, internal control, authority and responsibility to incorporate the internal compliance standard into the Company's operation and management. PICC AMC relied on the Company's risk control and management system to closely correspond to the capital market and the risk of asset management. Through rationalizing business procedure and enhancing education and monitoring, the Company kept optimizing its internal control measures. PICC Health initiated a project for the consistent implementation of basic internal control rules, developed information system for internal control management, established a comprehensive risk matrix system, established internal control framework system, prepared guidelines for procedures and standardized the structure. PICC Life continuously strengthened the establishment of risk management and internal control information system, actively advanced changes for proactive compliance, proactive internal control and comprehensive risk prevention, and proactively established internal control compliance system covering all staff, all procedures and accountability. PICC Investment Holding further optimized the regular monitoring on its business unit, daily management on internal control and comprehensive monitoring on audit unit. With these three types of ongoing supervision, PICC Investment Holding established internal control system based on compliance and effectiveness, combined with daily management and focusing on results and processes.

INTERNAL CONTROL *(continued)*

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 financial position and internal control of the Company, the due diligence work of Directors and senior management, together with special investigations and made proposals with respect to the implementation of more thorough strategies and refined operation plan to the Board and the operation management.

Composition

During the year, the Board of Supervisors was composed of:

Chairman: Mr. Lin Fan

Supervisors: Mr. Xu Yongxin (Supervisor), Ms. Yao Bo (employee representative Supervisor)

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

On 27 December 2013, the Company convened the second extraordinary shareholders' general meeting in 2013, at which Mr. Lin Fan, Mr. Yu Ning and Mr. Xu Yongxin were elected as the Supervisors for the second session of the Board of Supervisors. On 21 August 2013, the Company convened the fifth general meeting of the first session of employee representatives and elected Ms. Li Yongmei and Ms. Yao Bo as the employee representative Supervisors of the second session of the Board of Supervisors. In March 2014, CIRC approved the qualifications of Mr. Yu Ning, Mr. Xu Yongxin, Ms. Li Yongmei and Ms. Yao Bo as Supervisors.

Duties and Responsibilities

The Board of Supervisors shall report to the shareholders' general meeting, continuously supervise the health and effectiveness of the Company's financial position, compliance status and internal control as well as constantly supervise the performance of duty and responsibility by Directors and senior management.

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 in their performance of duties; propose the removal of Directors and senior management 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 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 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 and as granted by the 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 eight meetings and considered, reviewed and received 34 resolutions. The attendance of meetings was as follows:

Name	Lin Fan	Xu Yongxian	Yao Bo
Attendance in person/scheduled attendance	8/8	8/8	8/8
Percentage of attendance in person	100%	100%	100%
Attendance by proxy/scheduled attendance	0/8	0/8	0/8
Percentage of attendance by proxy	0%	0%	0%

See the section “Report of the Supervisors” for the work of the Board of Supervisors in the year.

INVESTOR RELATIONSHIP

After publishing the results for the year 2012 and the interim results for the year 2013, the Company communicated with investors with respect to the Company’s operation result and trend of business development through press conferences and roadshows. Also, the Company invited certain shareholders to attend the Company’s annual work conference to understand the operation and development of the Company. The Company strengthened daily communication with investors through receiving visit of investors, participating in large investor forums, and timely replying telephone and email enquires. The Company also establishes and maintains a good relationship with investors through the investor relations information on its website.

The Company has designated the Secretariat of the Board to be responsible for enquires received through telephone, fax, email and post. Please refer to the last page of this annual report for the Company’s contact details, including telephone number, fax number, email address and registered address. The “Investor Relations” pages on the Company’s website (www.picc.com), provider regularly updated information of the Company.

The Board presents its report and audited financial statements of the Company and its subsidiaries for the year ended 31 December 2013. 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 95 to 231 of this annual report.

The net profit of the Company for the year 2013 as presented in the audited financial statements amounted to RMB2.619 billion. Pursuant to the Articles of Association and other relevant provisions, after appropriation of 10%, or RMB262 million of the net profit in the financial statements as statutory reserve, the distributable profit realized for the year was RMB2.357 billion. The Board has recommended the distribution of dividend based on 15% of RMB2.357 billion, i.e., a payment of cash dividend of RMB0.083 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 RMB352 million, subject to the approval of shareholders at the annual general meeting to be held on 27 June 2014. Subject to approval, the final dividend is expected to be paid on or around 21 August 2014 to the holders of H shares whose names appear on the H share register of members of the Company on 9 July 2014.

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 2013 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 4 July 2014, a letter of entrustment and all application and relevant materials of proof 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 materials of proof 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 Enterprise 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, EQUIPMENT AND INVESTMENT PROPERTIES

Changes in the property and equipment and investment properties of the Group during the year are set out in Note 25 and Note 24 to the consolidated financial statements respectively. As at 31 December 2013, the Group did not own any investment properties where one or more percentage ratios (as defined under Rule 14.04(9) of the Listing Rules) exceed 5%.

SHARE CAPITAL

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

The total share capital of the Company had no change in 2013. The share capital of the Company as at 31 December 2013 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	615,713,000	1.45%
Other H-share shareholders	H shares	8,110,521,000	19.12%
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 had not acquired, disposed of or redeemed any listed securities of the Company.

RESERVES

Details of reserves of the Group are set out in Note 39 to the consolidated financial statements, and the consolidated statement of changes in equity.

DISTRIBUTABLE RESERVES

As of 31 December 2013, the distributable reserves of the Company amounted to RMB5.625 billion.

BANK BORROWINGS

Besides the subordinated debts issued by the Group and the repurchase business disposed of in the investment business, the bank borrowings of the Group were RMB501 million. Details of the subordinated debts are set out in Note 33 to the consolidated financial statements, and details of the bank borrowings are set out in Note 32 to the consolidated financial statements.

CHARITABLE AND OTHER DONATIONS

Charitable and other donations made by the Company and its subsidiaries in 2013 were RMB43.99 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 5% of the annual premium income of the Company and its subsidiaries. Premium income from the top five customers accounted for not more than 30% of the total premium income of the Company and its subsidiaries.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

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 11 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 12 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 2013, 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 (the "Hong Kong Stock Exchange").

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 2013, 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	615,713,000	Long position	7.06%	1.45%
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 the 668,043,000 H shares owned by State Grid Yingda International Holdings Group Limited.

Save as disclosed above, as at 31 December 2013, the Company was not aware of any other persons having any interest or short positions in the shares or underlying shares of the Company required to be entered into the register under Section 336 of the SFO.

PUBLIC FLOAT

Based on the information publicly available to the Company and to the knowledge of the Directors as of the latest practicable date prior to the publication of this annual report, as at 31 December 2013, 18.86% of the issued share capital of the Company was held by the public. Since PICC Life established a joint venture with AIG APAC, AIG becomes a connected person of the Company pursuant to Rule 14A.11 of the Listing Rules as AIG is an associate of the substantial shareholder of the joint venture. The Company made an application to the Hong Kong Stock Exchange which has exercised its discretion under Rule 8.08(1) of the Listing Rules to agree to deem AIG as "the Public" when considering whether the Company complies with the requirement of minimum public float of 18.44%. Please refer to the announcement of the Company dated 14 March 2014 for details. H shares held by NSSF and Tokyo Marine & Nichido Fire Insurance Co., Ltd. are not deemed as the shares held by the public for the purposes of Rule 8.08(1) of the Listing Rules.

CONNECTED TRANSACTIONS

During the reporting period, the Company had no connected transactions required to be disclosed pursuant to Chapter 14A of the Listing Rules. Please refer to Note 44 to the consolidated financial statements "Related Party Disclosures" for particulars on the related party transactions defined under International Financial Reporting Standards; 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

In accordance with the relevant requirements of the Ministry of Finance of the PRC in relation to the service term of an accounting firm continuously engaged by a financial enterprise, the service terms of the Company's former international auditor, Ernst & Young, and former domestic auditor, Ernst & Young Hua Ming LLP, reached the prescribed time limit. As reviewed and approved by the second extraordinary shareholders' meeting in 2013, the Company engaged Deloitte Touche Tohmatsu CPA LLP/Deloitte Touche Tohmatsu as the auditor of the Company for the financial statements for the year ended 31 December 2013, prepared in accordance with the PRC Accounting Standards for Business Enterprises and the International Financial Reporting Standards. In the recent years, it is the first time that Deloitte is serving as the auditor of the financial statements of the Company.

By the order of the Board
Chairman
Wu Yan

Report of the Board of Supervisors

During the 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 eight meetings and considered and received 34 resolutions, the main tasks included:

1. Considered and approved the work report for the year 2012 and work plan for the year 2013;

2. Studied and reviewed the annual business plan and budget plan of the Company for the year 2013, financial report for the year 2012, profit distribution plan for the year 2012 and engagement of auditor for the financial report for the year 2013;

3. Studied and reviewed the management discussion and analysis for the year 2012, the results announcement for the year 2012 and the annual report for the year 2012, as well as the interim results announcement for the year 2013 and interim report for the year 2013;

4. Studied and reviewed the Company's management report for the year 2012 and corporate governance report for the year 2012 and received performance report of the Directors for the year 2012 and performance report of the Independent Directors of the Company for the year 2012;

5. Studied and reviewed the internal control evaluation report for the year 2012, compliance report for the year 2012, risk assessment report for the year 2012, as well as received the connected transactions for the year 2012 and management scheme for the connected transactions, audit report for the connected transactions for the year 2012 and internal audit for the first half of 2012 and 2013;

6. Studied and reviewed several material matters, including the projects of setting up northern information center, repurchase of equity interests in No. 88 Development Company, investment for the construction of phase 2 southern information center and PICC apartment (Quarters) and capital increase in PICC Health;

7. Studied and reviewed the nomination of candidates for the Supervisor representative of Shareholders, Independent Supervisors of second session of the Board of Supervisors and the amendments of the provision in the Articles of Association governing the Board of Supervisors and the relevant clauses of the procedural rules of the Board of Supervisors meeting;

8. Reviewed and approved the Provisional Measures on Performance Appraisal of Directors and Senior Management and Provisional Measures on Supervising the Company's Financial Position and Internal Control.

A multi-faceted approach to supervision

In addition to the Supervisors' meetings referred to above, the Board of Supervisors also adopts various methods in order to supervise the decision-making procedures and the duty performance of the Board and the management involved in operations. During the year, the Supervisors attended three shareholders' meetings, six Board meetings, and 13 meetings of Board committees, participated in the resolution communication meetings 15 times. In addition, the Supervisors attended the annual work meeting and semi-annual work meeting to promptly comprehend the overall operation condition of the Company, development in each segment, major issues in operation and management and business plan and material measures suggested by the management. Meanwhile, the Broad of Supervisors focused on studying in the Company's material investment and operational management, making relevant advice and recommendation and keeping a close eye on the operation and management of the Company as well as the implementation of the resolutions resolved in general meetings and broad meetings.

Finance and internal control supervison with a focus on key points

During the year, the Board of Supervisors prudently reviewed the Company's annual results announcement, annual report, interim results announcement and interim report. Besides, the Supervisors focused on the capital efficiency of the Company, studied material matters, including material items on financial statements, substantial investment project and repurchase of shares; and carefully reviewed the internal control report, compliance report, risk report to understand the strength and efficiency of the Company's internal control measures, focused on the Company's material operation and management as well as risk control measures, promptly made advice and recommendation and facilitated the Company's operations according to and in compliance with the law.

Conducting detailed investigations as well as practical supervision

During the year, the Board of Supervisors worked in accordance with the work plan, conducted special investigations on the subsidiaries carrying out insurance business, appointed Supervisors to join the joint commission composed of Directors and Supervisors, visited the branches of subsidiaries to investigate their relevant business, inspected the branches and their operation, made advice and recommendation, avoided material operational risk and facilitated the Company's scientific development.

Reinforcing systems capabilities in order to improve supervision standards

During the year, the Board of Supervisors further optimized organizational structure, introduced Independent Supervisor, further enhanced the administrative office, prepared Provisional Measures on Performance Appraisal of Directors and Senior Management and Provisional Measures on Supervising the Company's Finance and Internal Control and perfected the supervision system. The Board of Supervisors proactively communicated with financial companies within the sector, organized relevant workshops focusing on specified topics to share with others and enhanced its professionalism.

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 which would 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 2013 have been audited by Deloitte in accordance with corresponding independent auditing standards.

Material investments and acquisitions of assets

With respect to material investments and acquisitions of assets during the reporting period, the Board of Supervisors was a not aware of any insider transactions or actions that could damage the interests of the shareholders or lead 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 internal control

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, which enhanced the level of internal control management.

Implementation of resolutions adopted at the shareholders' meetings

The members of the Board of Supervisors attended the shareholders' meetings and the Board meetings, and had no objection to the contents of resolutions submitted by the Board 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

Corporate Social Responsibility

In 2013, abiding by the mission and responsibility of "People's Insurance serves the People", the Group has constantly contributed to economic and social development, 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' development with a strong humanistic approach, so as to effectively achieve joint growth in the returns to the society, shareholders, customers and employees.

The Group worked hard to secure economic and social development. In 2013, in order to provide efficient insurance protection and comprehensive risk management for the domestic economy, endeavor to contribute to material national projects and secure the development of strategic emerging industry, the Company exclusively insured or acted as the principal insurer for major projects, including ChinaSat eleven satellite, Yunnan oil refinery project of China Petroleum and 20 million tonnes/year heavy oil processing project of Guangdong Petrochemical joint venture by China and Venezuela; acted as the principal insurer for "China Harbour" project, the first full coverage insurance project for overseas engineering insurance in China, and for the launch of communication satellite in Bolivia, by which we fully supported the development of PRC satellite industry in the international market. During the reporting period, the Group has underwritten liability insurance of RMB 191.9 trillion, successively ranking the top in the PRC insurance industry.

The Group focused on expanding insurance services for agriculture, rural areas and farmers. The Group extended the basic insurance service coverage for villages and endeavored to establish a one-stop sale and service platform in villages for the insurance service for agriculture, rural areas and farmers, through which to provide insurance against risks coming with village reform, improvement in people's living standard, fostering social harmony and modernizing agriculture. With our creative agricultural insurance products, the Group achieved a rapid development in plantation and breeding insurance and a breakthrough in trial project for agricultural insurance, continuously expanding our insurance coverage. During the year, we constantly perfected our forest insurance to support and provide insurance to the collective forest tenure reforms. The Group acted as the principal insurer for the Forest Insurance Project in Inner Mongolia Autonomous Region, which is the largest forest insurance project in the PRC. In 2013, the Group has undertaken agricultural risk liability of RMB740.41 billion; underwritten insurance policies for a total of 56.94 million rural households, undertaken risk liability of RMB733.3 billion and insured forest area of 943 million hectares.

The Group was committed to creating new business model in social security service. The Group fully utilized the advantages of insurance system, which can be customized for the market with plenty of flexibility, and proactively established a diversified participation system for social insurance. The Group is in the leading position in establishing social security system and improving basic public services in towns and cities. In 2013, the Group made full use of its advantage as the pioneer insurer of critical illness insurance and grasped the opportunity arising from the pilot policy of critical illness insurance. We won more than 80 tenders on critical illness insurance projects with total insurance premiums more than RMB3 billion. The number of participants exceeded 170 million and covered 22 provinces (autonomous regions), including Guangdong, Jiangsu, Shandong, Hubei, and Chongqing, as well as 95 regions. The Group has underwritten 729 social insurance projects (including critical illness insurance projects) with customers exceeding 298 million.

The Group further developed social management innovation. The Group (1) gave full play to liability insurance in resolving social conflicts and disputes and promoting the positive effect of liability insurance on social management model innovation; (2) accelerated the development of liability insurance types such as special equipment, high risks work, school liability to handle the major social issues; and (3) reduced incidents of social conflicts and friction. In 2013, the Group acted as the principal insurer for the demonstration project of liability insurance for travel agency in PRC and the demonstration project of liability insurance for safety production of fireworks and firecrackers in the PRC. We enjoyed over 60% market share in provinces where environmental liability insurance was introduced GWPs for liability insurance increased by 14.7% to RMB8,504 million.

The Group continuously improved product quality. The Group further developed the market-oriented and customer-based product and service system and strove to provide customers with diversified insurance and financial products. We organized the 5th PICC Customer Festival with dozens of new service commitments. 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. In 2013, the Group won 10 awards, including The Most Innovative Insurance Product", "Product with the Strongest Market Influence" and "The Best Insurance Product for Village" in the 8th China Insurance Innovation Prizes by virtue of our intelligent property liability insurance, insurance package for micro, small and medium enterprises and "Harmonious Village – Happy Family". Also, as a leading and key state-owned insurance company, the Group partnered with insurance companies managed by The Organization Department of the Communist Party of China Central Committee to advocate the principle of "For the People, Integrity and High Quality" for insurance services and endeavored to set up a common practice for insurance industry.

The Group further developed into a people-centered harmonious enterprise. The Group actively practiced the corporate culture of "People-oriented and Strive Forward in Harmony", respected employees' value, encouraged employees' motivation and enriched training and recruitment models. The Group's subsidiary PICC P&C won the title of "Top 100 Employers". A favorable learning environment was created within the Group through perfecting the training system to provide more trainings with an aim to build a learning-oriented enterprise. The Group organized more activities for employees, advocated a working system filled with love and care, and established a critical illness, hospitalization and medical insurance mechanism for retired employees. During the year, the management visited more than 4,000 staff and distributed consolation money and staff caring fund of RMB7.6 million to ensure the warmth of PICC as a family is timely delivered to employees in need.

The Group kept on participating in charity activities. The Group insisted on giving feedback to society through participating in various charity activities, including promotion of charity activities and organizing disaster relief and anti-poverty campaigns. The Group actively engaged in disaster relief by donating money and materials in several disasters, including Northeast water damage, Typhoon Fitow in Zhejiang and earthquakes in Lushan, Sichuan and Dingxi, Gansu. Besides, the Group effectively dealt with insurance settlement with an annual amount of RMB139.235 billion. In addition, the Group organized vaious charity activities, including "Making a Green and Energetic China", the 2nd "PICC –Astronomy and Space Camp for High School Students in the PRC and Taiwan" campaign and a donation activity for Xinjiang region, namely "Healthy Mom". Meanwhile, the Group also sponsored more than 300 patients in poverty for cataract surgery and donated down jackets to more than 10,000 students in needy regions.

The Company will publish a social responsibility report separately for the year 2013 to describe in details the Group's fulfillment of social responsibility.

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.

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

Please refer to the Report of the Board of Directors for details.

OTHER SIGNIFICANT EVENTS

(i) Capital increase in PICC Life

In January 2013, the Company, PICC P&C, PICC AMC, Asia Financial Holdings Ltd., Bangkok Bank and Sumitomo Life Insurance Company entered into a capital increase agreement with PICC Life to increase the capital of PICC Life, pursuant to which the Company, PICC P&C and PICC AMC have agreed to contribute RMB4 billion, approximately RMB485 million and approximately RMB17 million, respectively, with an aggregate amount of approximately RMB4.502 billion. Upon the completion of the capital increase, the proportion of shareholding held by each shareholder of PICC Life remained unchanged. Such capital increase was completed in April 2013.

(ii) Setting up of PICC Northern Information Center

The Company proposed to set up PICC Northern Information Center in Langfeng, Hebei, which was approved at the extraordinary shareholders' general meeting on 19 March 2013. Investment amount for such infrastructure project was approximately RMB4.104 billion, the site area of which was 400,000 m^2 with a construction land area of 385.87 mus. The project will be constructed in 2 phases and it is expected that the construction period will be 5 years.

(iii) Redemption of subordinated term debts issued in 2008

In April 2008, the Company issued subordinated term debts of RMB7.808 billion. Pursuant to the requirements under the debt subscription agreement, the Company redeemed and paid interests of approximately RMB472 million for the subordinated term debts in April 2013, which would be approximately RMB8.280 billion in aggregate. The Company paid such interests in cash.

(iv) Participation in the right issue of PICC P&C

In May 2013, pursuant to the announcement by PICC P&C and the Company's irrevocable commitment, the Company contributed approximately RMB3.999 billion to subscribe for 929,984,220 domestic rights shares of PICC P&C. Upon completion of the rights issue by PICC P&C, the Company still holds 69% of the issued capital in PICC P&C. The subscription amount was financed with the Company's internal resources.

(v) PICC Life's involvement in the establishment of a joint venture

In May 2013, the Company, PICC Life and AIG APAC entered a definitive joint venture agreement. Pursuant to the Joint Venture Agreement, PICC Life and AIG APAC will establish a limited company in China (the "Joint Venture") to carry out the sales of insurance products and relevant business. The registered capital of the Joint Venture amounts to RMB100 million, of which RMB 75.1 million is contributed by PICC Life with a 75.1% equity interest and RMB 24.9 million (or equivalent US dollars) is contributed by AIG APAC with a 24.9% equity interest. The Joint Venture will, to the extent permitted by law, be engaged in sales of insurance products as agents, insurance premium collection and other activities including on-site damage investigation and claim handling of relevant insurance businesses through a specialized sales force with focus on major cities throughout China. In March 2014, the Joint Venture was established. Please also refer to the Section "Report of the Board of Directors – Public float" for details.

(vi) Issue of subordinated term debts with principal amount of RMB16 billion

In June 2013, upon approval of China Insurance Regulatory Commission, the Company issued subordinated term debts of RMB16 billion with a maturity term of 10 years to qualified investors subject to relevant regulatory requirements. The Company has the right to redeem the subordinated term debts at the end of the fifth year. The issuance interest rate has been determined by market-oriented approach. The proceeds from the issuance of subordinated term debts will be used to replenish the Company's supplementary capital, strengthen our solvency margin ratio, optimize our capital structure and undertake infrastructure development according to applicable laws and approvals from regulatory authorities.

(vii) Acquisition of equity interests in No. 88 Development Company held by subsidiaries

1.00%, 30.41%, 3.04%, 15.21%, 45.62% and 4.72% of the equity interests in No. 88 Development Company were held by the Company, PICC P&C, PICC AMC, PICC Health, PICC Life and PICC Investment, respectively. In order to solve the shortage of office spaces in the headquarters of the Company, subject to the approval in the 2012 annual general meeting convened on 21 June 2013, the Company acquired the equity interests in No. 88 Development Company held by its five subsidiaries, namely PICC P&C, PICC Life, PICC Health, PICC AMC and PICC Investment, at a price set out in the appraisal report. Such equity transaction was completed in January 2014.

(viii) Issue of subordinated term debts of RMB6 billion by PICC Life

In December 2013, upon approval of China Insurance Regulatory Commission, PICC Life issued subordinated term debts of RMB6 billion with a maturity term of 10 years to qualified investors subject to relevant regulatory requirements. PICC Life has the right to redeem the subordinated term debts at the end of the fifth year. The issuance interest rate has been determined by market-oriented approach. The proceeds from the issuance of subordinated term debts will be used to replenish the supplementary capital of PICC Life, strengthen the solvency margin ratio, and to support the continuous expansion of PICC Life's business according to applicable laws, regulations and approvals from regulatory authorities.

(ix) Capital increase in PICC Health

In December 2013, at the eighth meeting of the first session of the Board in 2013, the Company approved the increase in capital of RMB400 million in PICC Health. Upon the capital increase, the Company directly held 89.87% interests in PICC Health.

(x) Redemption of subordinated term debts issued in 2009

In January 2009, the Company issued subordinated term debts with aggregate amount of RMB1.9 billion. Pursuant to the requirements under the debt subscription agreement, the Company was obligated to fully and irrevocably redeem such subordinated term debts in January 2014. The Company paid such amount in cash.

Embedded Value

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 margins of the future sales, risk discount rate, and the number of years of new business are considered to derive the multiplying factor.

Deloitte Consulting (Shanghai) Co. Ltd. Beijing Branch, independent consulting actuaries, have prepared actuarial consultants' review reports on the estimates of the embedded value of PICC Life and PICC Health, respectively, as of 31 December 2013, 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 2013, on a range of assumptions. Copies of consulting actuaries' review reports are included in our annual report. These reports do not constitute an audit opinion of the financial information used in the report.

The value of in-force business and the value of one year's new business in respect of 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, which reflect the impact of different assumptions on these values. Moreover, the values 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.

Independent Actuaries Review Opinion Report on the Embedded Value of PICC Life Insurance Company Limited

PICC Life has retained Deloitte Consulting (Shanghai) Limited Beijing Branch to review its embedded value as of 31 December 2013. The task is undertaken by Deloitte Actuarial and Insurance Solutions of Deloitte Consulting (Shanghai) Limited Beijing Branch ("Deloitte Actuarial" or "we").

SCOPE OF WORK

Our scope of work covers:

- Review the methodology of the embedded value and one year's new business value as of 31 December 2013;
- Review the assumptions of the embedded value and one year's new business value as of 31 December 2013;
- Review the results of the embedded value and one year's new business value as of 31 December 2013, including the analysis of embedded value movement from 31 December 2012 to 31 December 2013, the sensitivity tests of value of in-force business and value of one year's new business under alternative assumptions.

BASIS OF OPINION, RELIANCES AND LIMITATION

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

In carrying out our work, we have relied upon the accuracy and completeness of the audited and unaudited data and information provided by PICC Life.

The determination of embedded value is based on a range of assumptions on future operations and investment performance. Among these assumptions, many are not within the control of PICC Life, and affected by many internal and external factors. Hence the actual experience may deviate from these assumptions.

This report is addressed solely to PICC Life in accordance with the terms of our engagement letter. We have agreed that PICC Life can provide this review report to the People's Insurance Company (Group) of China Limited to be disclosed in its annual report. To the fullest extent permitted by applicable laws, we do not accept or assume any responsibility, duty of care or liability to anyone other than PICC Life for or in connection with our review work, the opinions we have formed, or for any statement set forth in this report.

OPINION

Based on our work, we concluded that:

- The methodology adopted by PICC Life to determine the embedded value results is in line with the "Life Insurance Embedded Value Reporting Guidelines" issued by the CIRC. This method is one that is commonly used by life and health insurance companies in China;

- The economic assumptions used by PICC Life have been set with regard to current investment market conditions and the investment strategy of PICC Life;

- The operating assumptions used by PICC Life have been set with regard to past experiences and the expectation of future experiences;

- The embedded value results are consistent with its methodology and assumptions used. The overall result is reasonable.

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

Eric Lu
FIAA, FCAA

2013 Embedded Value Report of PICC Life

1. DEFINITION AND METHODOLOGY

1.1 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 report basis plus reserve differences between accounting report 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;

- **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 report basis is that the policy reserve is determined based on China Insurance Regulatory Commission's ("CIRC") actuarial requirement instead of the accounting report 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 investment 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 of statutory requirement;

- **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.

1.2 Methodology

PICC Life has determined the Embedded Value and Value of One Year's New Business based on the "Guidance on Life and Health Insurance Embedded Value Report Preparation" (Baojianfa [2005] No. 83) ("Guidance") issued by CIRC.

PICC Life has used the traditional embedded value approach. Both Value of In-Force Business and Value of One Year's New Business are calculated using the deterministic discounted cash flow method. Such approach is commonly used in the Embedded Value and Value of One Year's New Business disclosed by the 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.

2. RESULT SUMMARY

Table 2.1 Embedded Value of PICC Life as at 31 December 2013 (Unit: RMB Million)

Risk Discount Rate	**10.0%**
Value of In-Force Business before CoC	17,664
Cost of Capital	(982)
Value of In-Force Business after CoC	16,682
Adjusted Net Worth	20,181
Embedded Value	**36,863**

Note: Figures may not add up due to rounding.

Table 2.2 Value of One Year's New Business of PICC Life for the 12 months up to 31 December 2013 (Unit: RMB Million)

Risk Discount Rate	**10.0%**
Value of One Year's New Business before CoC	4,383
Cost of Capital	(313)
Value of One Year's New Business after CoC	**4,070**

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, the expense assumptions used by PICC Life represent the expected long-term expense level in the future. As the operating history of PICC Life is not long, 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.

3. ASSUMPTIONS

3.1 Risk Discount Rate

A 10% risk discount rates has been used to calculate the Embedded Value and Value of One Year's New Business.

3.2 Rate of Investment Return

A 5.75% p.a. investment return assumption has been used.

3.3 Policy Dividend

The expected level of participating policy dividend is derived based on the participating policy of PICC Life. The 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 is illustrated in the sensitivity test.

3.4 Mortality and Morbidity

The assumptions on mortality and morbidity are set with due consideration of the prevailing experience of the industry, PICC Life's own experience and the reinsurance rates obtained by PICC Life:

3.5 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 30% to 61% of gross premium depending on the lines of business.

3.6 Lapse Rates

Lapse rate assumptions are based on the lapse experience and expectation of future experience. These assumptions vary by product line, payment mode and policy year. As the terms and conditions of the universal life business allow flexibility in premium payment, premium holiday assumptions are also set for regular premium universal life business.

3.7 Expenses and Commissions

Expense assumptions are set based on the operating experience, expense management approach and the expected future expense level of PICC Life. 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 vary by business lines.

3.8 Tax

Corporate income tax is currently levied at 25% on taxable profits. Income on government bonds other than capital gains/losses, dividend income from direct equity interest in domestic corporations and mutual funds are currently exempt from income tax.

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

4. SENSITIVITY TEST

PICC Life has conducted sensitivity tests on the Embedded Value and Value of One Year's New Business. In each of these 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 results of sensitivity tests are summarized in Table 4.1 and 4.2.

Table 4.1 the Value of In-Force Business of PICC Life as at 31 December 2013 under Alternative Assumptions (Unit: RMB Million)

Scenarios	Before CoC	After CoC
Base Scenario	17,664	16,682
Risk Discount Rate at 9%	18,644	17,757
Risk Discount Rate at 11%	16,799	15,737
Investment rate of return plus 50 bps	21,075	20,277
Investment rate of return less 50 bps	14,281	13,114
Expenses increased by 10%	17,497	16,515
Expenses reduced by 10%	17,831	16,849
Lapse rates increased by 10%	17,265	16,356
Lapse rates reduced by 10%	18,091	17,031
Mortality increased by 10%	17,600	16,619
Mortality reduced by 10%	17,728	16,745
Morbidity increased by 10%	17,663	16,681
Morbidity reduced by 10%	17,665	16,683
Short-term business claim ratio increased by 10%	17,623	16,641
Short-term business claim ratio reduced by 10%	17,705	16,724
Participating Ratio (80/20)	16,391	15,409
150% of Minimum Solvency Requirement	17,664	15,435
Taxable Income Based on China Accounting Standards	17,645	16,663

Note: Except for the scenario with risk discount rate, the risk discount rate used for other scenarios are 10%.

4. SENSITIVITY TEST *(continued)*

Table 4.2 Value of One Year's New Business for the 12 months prior to 31 December 2013 of PICC Life under Alternative Assumptions (Unit: RMB Million)

Scenarios	Before CoC	After CoC
Base Scenario	4,383	4,070
Risk Discount Rate at 9%	4,660	4,383
Risk Discount Rate at 11%	4,136	3,791
Investment rate of return plus 50 bps	5,257	4,996
Investment rate of return less 50 bps	3,519	3,155
Expenses increased by 10%	4,089	3,776
Expenses reduced by 10%	4,676	4,364
Lapse rates increased by 10%	4,244	3,960
Lapse rates reduced by 10%	4,530	4,187
Mortality increased by 10%	4,341	4,029
Mortality reduced by 10%	4,424	4,111
Morbidity increased by 10%	4,382	4,069
Morbidity reduced by 10%	4,384	4,071
Short-term business claim ratio increased by 10%	4,301	3,988
Short-term business claim ratio reduced by 10%	4,465	4,152
Participating Ratio (80/20)	3,931	3,618
150% of Minimum Solvency Requirement	4,383	3,718
Taxable Income Based on China Accounting Standards	4,294	3,981

Note: Except for the scenario with risk discount rate, the risk discount rate used for other scenarios are 10%.

5. MOVEMENT ANALYSIS

Table 5.1 shows the analysis of Embedded Value movement from 31 December 2012 to 31 December 2013.

Table 5.1 Analysis of Embedded Value Movement from 31 December 2012 to 31 December 2013 (Unit: RMB Million)

No	Description	Amount
1	Embedded Value as at 31 December 2012	**30,906**
2	New Business Contribution	4,017
3	Expected Return	2,252
4	Investment Return Variance	(3,662)
5	Other Experience Variances	(1,014)
6	Assumption Changes	(292)
7	Capital Change and Market Value Adjustment	4,655
8	Embedded Value as at 31 December 2013	**36,863**

Note: Figures may not add up due to rounding.

Explanations on items 2 to 7 above:

2. The contribution of new business sold in 2013 to the embedded value as at 31 December 2013.

3. The expected return in 2013 arising from the in-force business and adjusted net worth at 2012 year end.

4. The variance in 2013 between the actual investment return and the assumed investment return.

5. Variances other than investment return in 2013 between experiences and assumptions.

6. The impact on Embedded Value due to the changes in assumptions during 2013.

7. The impact on Embedded Value due to capital changes and the changes in market value adjustments of the Adjusted Net Worth during 2013.

Independent Actuaries Review Opinion Report on the Embedded Value of PICC Health Insurance Company Limited

PICC Health has retained Deloitte Consulting (Shanghai) Limited Beijing Branch to review its embedded value as of 31 December 2013. The task is undertaken by Deloitte Actuarial and Insurance Solutions of Deloitte Consulting (Shanghai) Limited Beijing Branch ("Deloitte Actuarial" or "we").

SCOPE OF WORK

Our scope of work covers:

- Review the methodology of the embedded value and one year's new business value as of 31 December 2013;
- Review the assumptions of the embedded value and one year's new business value as of 31 December 2013;
- Review the results of the embedded value and one year's new business value as of 31 December 2013, including the analysis of embedded value movement from 31 December 2012 to 31 December 2013, the sensitivity tests of value of in-force business and value of one year's new business under alternative assumptions.

BASIS OF OPINION, RELIANCES AND LIMITATION

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

In carrying out our work, we have relied upon the accuracy and completeness of the audited and unaudited data and information provided by PICC Health.

The determination of embedded value is based on a range of assumptions on future operations and investment performance. Among these assumptions, many are not within the control of PICC Health, and affected by many internal and external factors. Hence the actual experience may deviate from these assumptions.

This report is addressed solely to PICC Health in accordance with the terms of our engagement letter. We have agreed that PICC Health can provide this review report to the Company to be disclosed in its annual report. To the fullest extent permitted by applicable laws, we do not accept or assume any responsibility, duty of care or liability to anyone other than PICC Health for or in connection with our review work, the opinions we have formed, or for any statement set forth in this report.

OPINION

Based on our work, we concluded that:

- The methodology adopted by PICC Health to determine the embedded value results is in line with the "Life Insurance Embedded Value Reporting Guidelines" issued by the CIRC. This method is one that is commonly used by life and health insurance companies in China;

- The economic assumptions used by PICC Health have been set with regard to current investment market conditions and the investment strategy of PICC Health;

- The operating assumptions used by PICC Health have been set with regard to past experiences and the expectation of future experiences;

- The embedded value results are consistent with its methodology and assumptions used. The overall result is reasonable.

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

Eric Lu
FIAA, FCAA

2013 Embedded Value Report of PICC Health

1. DEFINITION AND METHODOLOGY

1.1 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 report basis plus reserve differences between accounting report 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;

- **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 report basis is that the policy reserve is determined based on China Insurance Regulatory Commission's ("CIRC") actuarial requirement instead of the accounting report 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 investment 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 of statutory requirement;

- **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.

1.2 Methodology

PICC Health has determined the Embedded Value and Value of One Year's New Business based on the "Guidance on Life and Health Insurance Embedded Value Report Preparation" (Baojianfa [2005] No. 83) ("Guidance") issued by CIRC.

PICC Health has used the traditional embedded value approach. Both Value of In-Force Business and Value of One Year's New Business are calculated using the deterministic discounted cash flow method. Such approach is commonly used in the Embedded Value and Value of One Year's New Business disclosed by the 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.

2. RESULT SUMMARY

Table 2.1 Embedded Value of PICC Health as at 31 December 2013 (Unit: RMB Million)

Risk Discount Rate	**10.0%**
Value of In-Force Business before CoC	1,385
Cost of Capital	(133)
Value of In-Force Business after CoC	1,252
Adjusted Net Worth	1,239
Embedded Value	**2,491**

Note: Figures may not add up due to rounding.

Table 2.2 Value of One Year's New Business of PICC Health for the 12 months up to 31 December 2013 (Unit: RMB Million)

Risk Discount Rate	10.0%
Value of One Year's New Business before CoC	517
Cost of Capital	(36)
Value of One Year's New Business after CoC	**481**

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, the expense assumptions used by PICC Health represent the expected long-term expense level in the future. As the operating history of PICC Health is not long, 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.

3. ASSUMPTIONS

3.1 Risk Discount Rate

A 10% risk discount rates has been used to calculate the Embedded Value and Value of One Year's New Business.

3.2 Rate of Investment Return

A 5.75% p.a. investment return assumption has been used.

3.3 Policy Dividend

The expected level of participating policy dividend is derived based on the participating policy of PICC Health. The 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 is illustrated in the sensitivity test.

3.4 Mortality and Morbidity

The assumptions on mortality and morbidity are set with due consideration of the prevailing experience of the industry, PICC Health's own experience and the reinsurance rates obtained by PICC Health:

3.5 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 41% to 107% of gross premium depending on the lines of business.

3.6 Lapse Rates

Lapse rate assumptions are based on the lapse experience and expectation of future experience. These assumptions vary by product line, payment mode and policy year. As the terms and conditions of the universal life business allow flexibility in premium payment, premium holiday assumptions are also set for regular premium universal life business.

3.7 Expenses and Commissions

Expense assumptions are set based on the operating experience, expense management approach and the expected future expense level of 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 Health and vary by business lines.

3.8 Tax

Corporate income tax is currently levied at 25% on taxable profits. Income on government bonds other than capital gains/losses, dividend income from direct equity interest in domestic corporations and mutual funds are currently exempt from income tax.

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

4. SENSITIVITY TEST

PICC Health has conducted sensitivity tests on the Embedded Value and Value of One Year's New Business. In each of these 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 results of sensitivity tests are summarized in Table 4.1 and 4.2.

Table 4.1 the Value of In-Force Business of PICC Health as at 31 December 2013 under Alternative Assumptions (Unit: RMB Million)

Scenarios	Before CoC	After CoC
Base Scenario	1,385	1,252
Risk Discount Rate at 9%	1,467	1,348
Risk Discount Rate at 11%	1,311	1,167
Investment rate of return plus 50 bps	1,675	1,561
Investment rate of return less 50 bps	1,095	944
Expenses increased by 10%	1,294	1,162
Expenses reduced by 10%	1,475	1,343
Lapse rates increased by 10%	1,265	1,150
Lapse rates reduced by 10%	1,527	1,373
Mortality increased by 10%	1,377	1,245
Mortality reduced by 10%	1,392	1,259
Morbidity increased by 10%	1,371	1,239
Morbidity reduced by 10%	1,398	1,266
Short-term business claim ratio increased by 10%	880	747
Short-term business claim ratio reduced by 10%	1,964	1,831
Participating Ratio (80/20)	1,348	1,215
150% of Minimum Solvency Requirement	1,385	1,145
Taxable Income Based on China Accounting Standards	1,388	1,255

Note: Except for the scenario with risk discount rate, the risk discount rate used for other scenarios are 10%.

4. SENSITIVITY TEST *(continued)*

Table 4.2 Value of One Year's New Business for the 12 months prior to 31 December 2013 of PICC Health under Alternative Assumptions (Unit: RMB Million)

Scenarios	Before CoC	After CoC
Base Scenario	517	481
Risk Discount Rate at 9%	536	505
Risk Discount Rate at 11%	499	459
Investment rate of return plus 50 bps	575	544
Investment rate of return less 50 bps	459	418
Expenses increased by 10%	483	447
Expenses reduced by 10%	550	514
Lapse rates increased by 10%	491	459
Lapse rates reduced by 10%	555	513
Mortality increased by 10%	516	480
Mortality reduced by 10%	517	481
Morbidity increased by 10%	516	480
Morbidity reduced by 10%	518	482
Short-term business claim ratio increased by 10%	284	247
Short-term business claim ratio reduced by 10%	750	714
Participating Ratio (80/20)	508	472
150% of Minimum Solvency Requirement	517	445
Taxable Income Based on China Accounting Standards	507	470

Note: Except for the scenario with risk discount rate, the risk discount rate used for other scenarios are 10%.

5. MOVEMENT ANALYSIS

Table 5.1 shows the analysis of Embedded Value movement from 31 December 2012 to 31 December 2013.

Table 5.1 Analysis of Embedded Value Movement from 31 December 2012 to 31 December 2013
(Unit: RMB Million)

No	Description	Amount
1	Embedded Value as at 31 December 2012	**4,569**
2	New Business Contribution	487
3	Expected Return	353
4	Investment Return Variance	(544)
5	Other Experience Variances	(1,590)
6	Assumption Changes	(1,133)
7	Capital Change and Market Value Adjustment	349
8	Embedded Value as at 31 December 2013	**2,491**

Note: Figures may not add up due to rounding.

Explanations on items 2 to 7 above:

2. The contribution of new business sold in 2013 to the embedded value as at 31 December 2013.
3. The expected return in 2013 arising from the in-force business and adjusted net worth at 2012 year end.
4. The variance in 2013 between the actual investment return and the assumed investment return.
5. Variances other than investment return in 2013 between experiences and assumptions.
6. The impact on Embedded Value due to the changes in assumptions during 2013.
7. The impact on Embedded Value due to capital changes and the changes in market value adjustments of the Adjusted Net Worth during 2013.

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 (collectively referred to as the "Group") set out on pages 95 to 231, which comprise the consolidated and company statements of financial position as at 31 December 2013 and the consolidated income statement, the 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement, 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 auditor's 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 auditor considers 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 2013, 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.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
28 March 2014

Consolidated Income Statement

For the year ended 31 December 2013
(Amounts in millions of Renminbi, unless otherwise stated)

	Notes	**2013**	2012
Gross written premiums	5	**306,421**	265,216
Less: Premiums ceded to reinsurers	5	**(33,811)**	(31,406)
Net written premiums	5	**272,610**	233,810
Change in unearned premium reserves		**(9,350)**	(8,993)
Net earned premiums		**263,260**	224,817
Reinsurance commission income		**11,477**	10,438
Investment income	6	**27,829**	20,043
Other income	7	**2,172**	2,051
TOTAL INCOME		**304,738**	257,349
Claims and policyholders' benefits:	8	**208,290**	170,411
Life insurance death and other benefits paid		**28,592**	15,213
Claims incurred		**125,166**	102,255
Changes in long-term life insurance contract liabilities		**51,209**	50,072
Policyholder dividends		**3,323**	2,871
Handling charges and commissions		**21,659**	20,205
Finance costs	9	**5,512**	4,989
Exchange losses, net		**646**	50
Other operating and administrative expenses		**55,932**	48,945
TOTAL BENEFITS, CLAIMS AND EXPENSES		**292,039**	244,600
Share of profits and losses of associates		**2,971**	571
PROFIT BEFORE TAX	10	**15,670**	13,320
Income tax expense	13	**(3,615)**	(3,176)
PROFIT FOR THE YEAR		**12,055**	10,144
Attributable to:			
Equity holders of the parent		**8,121**	6,832
Non-controlling interests		**3,934**	3,312
		12,055	10,144
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT (in RMB)			
– Basic and diluted	14	**0.19**	0.20

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2013
(Amounts in millions of Renminbi, unless otherwise stated)

	Note	2013	2012
PROFIT FOR THE YEAR		12,055	10,144
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified subsequently to profit or loss:			
Available-for-sale financial assets			
– Fair value (losses)/gains		(1,997)	2,855
– Reclassification of (gains)/losses to profit or loss on disposals		(3,588)	483
– Impairment losses	6(d)	3,323	4,141
Income tax effect	28	(291)	(510)
		(2,553)	6,969
Net losses on cash flow hedges		(57)	(100)
Income tax effect	28	14	25
		(43)	(75)
Share of other comprehensive (expenses)/income of associates		(169)	149
Exchange differences on translating foreign operations		(28)	–
NET OTHER COMPREHENSIVE (EXPENSE)/INCOME MAY BE RECLASSIFIED TO PROFIT OR LOSS IN SUBSEQUENT PERIODS		(2,793)	7,043
Items that will not be reclassified to profit or loss:			
Gains on revaluation of properties and prepaid land premiums upon transfer to investment properties	24	369	235
Income tax effect	28	(92)	(59)
		277	176
Actuarial gain/(losses) on pension benefit obligation	36	187	(52)
NET OTHER COMPREHENSIVE INCOME WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS IN SUBSEQUENT PERIODS		464	124
OTHER COMPREHENSIVE (EXPENSE)/INCOME FOR THE YEAR, NET OF TAX		(2,329)	7,167
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		9,726	17,311
Attributable to:			
– Equity holders of the parent		6,475	12,354
– Non-controlling interests		3,251	4,957
		9,726	17,311

Consolidated Statement of Financial Position

31 December 2013
(Amounts in millions of Renminbi, unless otherwise stated)

	Notes	**31 December 2013**	31 December 2012
ASSETS			
Cash and cash equivalents	15	**46,607**	73,873
Derivative financial assets	16	**16**	73
Debt securities	17	**243,756**	217,369
Equity securities	18	**97,612**	119,729
Insurance receivables, net	19	**26,762**	23,305
Reinsurance assets	20, 34	**27,222**	23,875
Term deposits	21	**137,607**	120,115
Restricted statutory deposits		**8,992**	7,880
Investments in associates	23	**28,268**	3,361
Investment properties	24	**10,075**	8,450
Property and equipment	25	**22,054**	21,942
Intangible assets	26	**533**	398
Prepaid land premiums	27	**3,754**	3,708
Deferred tax assets	28	**1,545**	2,215
Other assets	29	**100,516**	62,357
TOTAL ASSETS		**755,319**	688,650
LIABILITIES			
Securities sold under agreements to repurchase	31	**44,448**	71,290
Derivative financial liabilities	16	**10**	3
Income tax payable		**57**	72
Due to banks and other financial institutions	32	**501**	362
Subordinated debts	33	**46,837**	34,855
Insurance contract liabilities	34	**461,776**	391,577
Investment contract liabilities for policyholders	35	**41,640**	50,312
Policyholder dividends payable		**7,806**	5,486
Pension benefit obligation	36	**2,614**	2,952
Deferred tax liabilities	28	**435**	98
Other liabilities	37	**54,394**	48,301
TOTAL LIABILITIES		**660,518**	605,308
EQUITY			
Issued capital	38	**42,424**	42,424
Reserves	39	**29,151**	22,950
Equity attributable to equity holders of the parent		**71,575**	65,374
Non-controlling interests		**23,226**	17,968
TOTAL EQUITY		**94,801**	83,342
TOTAL EQUITY AND LIABILITIES		**755,319**	688,650

Consolidated Statement of Changes in Equity

For the year ended 31 December 2013
(Amounts in millions of Renminbi, unless otherwise stated)

	Attributable to equity holders of the parent													
	Share capital *(note38)*	Share premium account	Available-for-sale investment revaluation reserve	General risk reserve *(note39 (a))*	Changes in associates' equity	Asset revaluation	Cash flow hedge	Foreign exchange	Surplus reserve fund* *(note 39(b))*	Other reserves *(note39 (c))*	Retained profits	Subtotal	Non-controlling interests	Total equity
Balance at 1 January 2013	42,424	19,925	(4,457)	2,049	141	1,513	28	(84)	317	(14,889)	18,407	65,374	17,968	83,342
Profit for the year	–	–	–	–	–	–	–	–	–	–	8,121	8,121	3,934	12,055
Other comprehensive income	–	–	(1,856)	–	(128)	203	(31)	(21)	–	–	187	(1,646)	(683)	(2,329)
Total comprehensive income	–	–	(1,856)	–	(128)	203	(31)	(21)	–	–	8,308	6,475	3,251	9,726
Appropriations to general risk reserve and surplus reserve fund	–	–	–	796	–	–	–	–	262	–	(1,058)	–	–	–
Dividends paid to shareholders	–	–	–	–	–	–	–	–	–	–	(163)	(163)	(1,041)	(1,204)
Issue of shares	–	–	–	–	–	–	–	–	–	–	–	–	2,951	2,951
Acquisition of non-controlling interests	–	–	–	–	–	–	–	–	–	(100)	–	(100)	100	–
Others	–	–	–	–	–	–	–	–	–	–	(11)	(11)	(3)	(14)
Balance at 31 December 2013	42,424	19,925	(6,313)	2,845	13	1,716	(3)	(105)	579	(14,989)	25,483	71,575	23,226	94,801

* This reserve contains both statutory and discretionary surplus reserves.

(Amounts in millions of Renminbi, unless otherwise stated)

	Attributable to equity holders of the parent														
	Share capital *(note38)*	Share premium account	Available –for-sale investment revaluation reserve	General risk reserve *(note39 (a))*	Changes in associates' equity	Revaluation surplus from acquisitions	Asset revaluation	Cash flow hedge	Foreign exchange	Surplus reserve fund* *(note 39 (b)*	Other reserves *(note39 (c))*	Retained profits	Subtotal	Non–controlling interests	Total equity
Balance at 1 January 2012	34,491	6,104	(9,873)	1,287	47	252	1,392	85	(84)	136	(14,811)	12,318	31,344	16,591	47,935
Profit for the year	–	–	–	–	–	–	–	–	–	–	–	6,832	6,832	3,312	10,144
Other comprehensive income	–	–	5,416	–	94	–	121	(57)	–	–	–	(52)	5,522	1,645	7,167
Total comprehensive income	–	–	5,416	–	94	–	121	(57)	–	–	–	6,780	12,354	4,957	17,311
Appropriations to general risk reserve and surplus reserve fund	–	–	–	781	–	–	–	–	–	181	–	(962)	–	–	–
Dividends paid to non-controlling shareholders	–	–	–	–	–	–	–	–	–	–	–	–	–	(812)	(812)
Issue of shares	7,933	13,821	–	–	–	–	–	–	–	–	–	–	21,754	–	21,754
Acquisition of non-controlling interests	–	–	–	–	–	–	–	–	–	–	(78)	–	(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	–	1,513	28	(84)	317	(14,889)	18,407	65,374	17,968	83,342

* This reserve contains both statutory and discretionary surplus reserves.

Consolidated Statement of Cash Flows

For the year ended 31 December 2013
(Amounts in millions of Renminbi, unless otherwise stated)

	Notes	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**15,670**	13,320
Adjustments for:			
Investment income	6	**(27,829)**	(20,043)
Exchange losses, net		**646**	50
Share of profits and losses of associates		**(2,971)**	(571)
Interest income on entrusted loans		**–**	(52)
Depreciation of property and equipment	10, 25	**2,031**	1,621
Amortisation of intangible assets	10, 26	**90**	65
Amortisation of prepaid land premiums	10, 27	**126**	123
Disposal gains from property and equipment and intangible assets	7	**(83)**	(189)
Finance costs except for interests credited to policyholders	9	**3,571**	3,061
Impairment losses on insurance receivables and other receivables	10	**216**	210
Share issuance expenses		**–**	57
Investment expenses		**129**	128
Increase in insurance receivables, net		**(3,645)**	(104)
Increase in other assets and prepayments, net		**(233)**	(1,306)
Increase/(decrease) in other liabilities and accruals		**2,273**	(6,801)
Increase in insurance contract liabilities, net		**66,852**	66,642
Cash generated from operations		**56,843**	56,211
Income tax paid		**(2,992)**	(3,689)
Net cash flows from operating activities		**53,851**	52,522
CASH FLOWS FROM INVESTING ACTIVITIES			
Interests received		**20,874**	17,193
Dividends received		**5,577**	3,152
Increase in policy loans		**(204)**	(1,215)
Disposal of subsidiaries		**–**	2,205
Capital expenditures		**(3,776)**	(4,791)
Disposals of investment properties, property and equipment and intangible assets		**358**	390
Purchases of investments		**(282,369)**	(160,675)
Disposals of investments		**213,591**	99,097
Payments for investment expenses		**(129)**	(128)
Placement of deposits with banks with original maturity of more than three months		**(31,346)**	(28,601)
Maturity of deposits with banks with original maturity of more than three months		**13,730**	3,186
Net cash flows used in investing activities		**(63,694)**	(70,187)

For the year ended 31 December 2013
(Amounts in millions of Renminbi, unless otherwise stated)

	Notes	**2013**	2012
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		**2,951**	22,345
Share issuance expenses		**(613)**	–
(Decrease)/increase in securities sold under agreements to repurchase		**(26,842)**	17,209
Issue of subordinated debts	33	**21,948**	–
Proceeds from banks and other financial institutions		**139**	98
Repayment of subordinated debts	33	**(10,058)**	–
Interests paid		**(3,330)**	(2,668)
Dividends paid		**(1,204)**	(812)
Others		**–**	(113)
Net cash flows (used in)/from financing activities		**(17,009)**	36,059
Net (decrease)/increase in cash and cash equivalents		**(26,852)**	18,394
Cash and cash equivalents at beginning of the year		**73,873**	55,507
Effects of exchange rate changes on cash and cash equivalents		**(414)**	(28)
Cash and cash equivalents at end of the year		**46,607**	73,873
Analysis of balances of cash and cash equivalents			
Cash on hand	15	**6**	179
Securities purchased under resale agreements with original maturity of less than three months	15	**6,583**	2,435
Demand deposits and deposits with banks with original maturity of less than three months	15	**40,018**	71,259
Cash and cash equivalents at end of the year		**46,607**	73,873

Statement of Financial Position

At 31 December 2013
(Amounts in millions of Renminbi, unless otherwise stated)

	Notes	**31 December 2013**	31 December 2012
ASSETS			
Cash and cash equivalents	15	**2,876**	22,325
Debt securities	17	**4,512**	–
Equity securities	18	**9,834**	2,686
Term deposits	21	**5,970**	115
Investments in subsidiaries	22	**74,448**	62,011
Investments in associates	23	**3,671**	3,301
Investment properties	24	**1,136**	1,075
Property and equipment	25	**227**	209
Intangible assets	26	**38**	19
Prepaid land premiums	27	**72**	74
Other assets	29	**2,414**	1,653
TOTAL ASSETS		**105,198**	93,468
LIABILITIES			
Securities sold under agreement to repurchase	31	**1,955**	–
Subordinated debts	33	**17,856**	9,708
Pension benefit obligation	36	**2,614**	2,952
Other liabilities	37	**2,277**	3,010
TOTAL LIABILITIES		**24,702**	15,670
EQUITY			
Share capital	38	**42,424**	42,424
Reserves	39	**38,072**	35,374
TOTAL EQUITY		**80,496**	77,798
TOTAL EQUITY AND LIABILITIES		**105,198**	93,468

1. CORPORATE INFORMATION

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

The Company is an investment holding company. During the year ended 31 December 2013, 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. The Company and its subsidiaries are collectively referred to as the "Group".

2.1 STATEMENT OF COMPLIANCE

The consolidated 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 disclosures required by the Listing Rules and Hong Kong Companies Ordinance.

2.2 BASIS OF PREPARATION

The consolidated financial statements have been prepared on the historical cost basis 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. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest million except when otherwise indicated.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for leasing transactions that are within the scope of IAS 17 Leases, and measurements that have some similarities to fair value but are not fair value, such as value in use in IAS 36 Impairment of Assets.

(Amounts in millions of Renminbi, unless otherwise stated)

2.2 BASIS OF PREPARATION *(continued)*

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

2.3 APPLICATIONS OF NEW AND REVISED IFRSs

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

Amendments to IFRS 7	Financial Instruments: *Disclosures-Offsetting Financial Assets and Financial Liabilities*
IFRS 10	*Consolidated Financial Statements*
IFRS 11	*Joint Arrangements*
IFRS 12	*Disclosure of Interests in Other Entities*
IFRS 13	*Fair Value Measurement*
Amendments to IAS 1 (2011)	*Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income*
IAS 19 (2011)	*Employee Benefits*
IAS 27 (2011)	*Separate Financial Statements*
IAS 28 (2011)	*Investments in Associates and Joint Ventures*
Annual Improvements 2009-2011 Cycle	Amendments to a number of IFRSs issued in May 2012

Amendments to IFRS 7-Offsetting Financial Assets and Financial Liabilities

IFRS 7 amendment requires an entity to disclose information about rights to set-off financial instruments and related arrangements (e.g., collateral agreements). 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 the financial instruments are set off in accordance with IAS 32. The amendment has had no significant financial impact on the Group.

2.3 APPLICATIONS OF NEW AND REVISED IFRSs *(continued)*

IFRS 10-Consolidated Financial Statements

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. IFRS 10 replaces the parts of previously existing IAS 27 Consolidated and Separate Financial Statements that dealt with consolidated financial statements and SIC-12 Consolidation – Special Purpose Entities. IFRS 10 changes the definition of control such that an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. To meet the definition of control in IFRS 10, all three criteria must be met, including: (a) an investor has power over an investee; (b) the investor has exposure, or rights, to variable returns from its involvement with the investee; and (c) the investor has the ability to use its power over the investee to affect the amount of the investor's returns. The Group has re-assessed its involvement in its investees, including structured entities, and concluded that IFRS 10 has had no significant financial impact on the Group.

IFRS 11-Joint Arrangements

IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly Controlled Entities-Non-Monetary Contributions by Venturers. IFRS 11 removes the option to account for jointly controlled entities ("JCEs") using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture under IFRS 11 must be accounted for using the equity method. The application of this new standard has had no significant financial impact on the Group.

IFRS 12-Disclosure of Interests in Other Entities

IFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. This standard affects the disclosures regarding subsidiaries and associates of the Group which are set out in notes 22 and 23 to these consolidated financial statements.

IFRS 13-Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The application of IFRS 13 has had no significant financial impact on the measurement of the Group's assets and liabilities.

IFRS 13 also requires specific disclosures on fair values, some of which replace existing disclosure requirements in other standards, including IFRS 7 Financial Instruments: Disclosures and IAS 40 Investment Properties. The Group provides these disclosures in notes 24 and 42.

IFRS 13 requires prospective application. In accordance with the transitional provisions of IFRS 13, the Group and the Company have not made new disclosures required by IFRS 13 for the 2012 comparative period.

2.3 APPLICATIONS OF NEW AND REVISED IFRSs *(continued)*

Amendments to IAS 1 (2011)-Presentation of Financial Statements

The amendments to IAS 1 introduces a grouping of items presented in other comprehensive income ("OCI"). Items that could be reclassified (or recycled) to profit or loss at a future point in time (e.g., exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) now have to be presented separately from items that will never be reclassified (e.g., actuarial gains and losses on defined benefit plans). The amendment affects presentation only and has had no significant financial impact on the Group.

The amendments also introduce a new terminology for the statement of comprehensive income and income statement. Under the amendment, a statement of comprehensive income is renamed as a statement of profit or loss and other comprehensive income and an income statement is renamed as statement of profit or loss. The Group chose not to rename these statements in accordance with the revised IAS 1.

An opening statement of financial position (known as the "third balance sheet") must be presented when an entity applies an accounting policy retrospectively, makes retrospective restatements, or reclassifies items in its financial statements, provided any of those changes has a material effect on the statement of financial position at the beginning of the preceding period. The amendment clarifies that a third balance sheet does not have to be accompanied by comparative information in the related notes. The amendment has had no significant financial impact on the Group.

IAS 19 (2011)-Employee Benefits

IAS 19 includes a number of amendments to the accounting for defined benefit plans, including actuarial gains and losses that are now recognised in OCI and permanently excluded from profit and loss; expected returns on plan assets that are no longer recognised in profit or loss, instead, there is a requirement to recognise interest on the net defined benefit liability (asset) in profit or loss, calculated using the discount rate used to measure the defined benefit obligation, and; unvested past service costs are now recognised in profit or loss at the earlier of when the amendment occurs or when the related restructuring or termination costs are recognised. Other amendments include new disclosures, such as, quantitative sensitivity disclosures. The revised standard has had no significant financial impact on the Group.

IAS 27 (2011)-Separate Financial Statements

IAS 28 (2011)-Investments in Associates and Joint Ventures

Consequential amendments were made to IAS 27 and IAS 28 as a result of the issuance of IFRS 10, IFRS 11 and IFRS 12. IFRS 10, IFRS 11, IFRS 12, IAS 27 (2011), IAS 28 (2011), and the subsequent amendments to these standards issued in July 2012 have had no significant financial impact on the Group.

Annual Improvements 2009-2011 Cycle-Amendments to a number of IFRSs issued in May 2012

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

(Amounts in millions of Renminbi, unless otherwise stated)

2.4 ISSUED BUT NOT YET EFFECTIVE IFRSs

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

IFRS 9	*Financial Instruments*[1]
IFRS 14	*Regulatory Deferral Accounts*[2]
Amendments to IFRS 9 and IFRS 7	*Mandatory Effective Date of IFRS 9 and Transition Disclosures*[1]
Amendments to IAS 19	*Defined Benefit Plans: Employee Contributions*[3]
Amendments to IAS 32	*Offsetting Financial Assets and Financial Liabilities*[4]
Amendments to IAS 36	*Recoverable Amount Disclosures for Non-Financial Assets*[4]
Amendments to IAS 39	*Novation of Derivatives and Continuation of Hedge Accounting*[4]
Amendments to IFRS 10, IFRS 12 and IAS 27	*Investment entities*[4]
IFRIC 21	*Levies*[4]
Amendments to IFRSs	*Annual Improvements to IFRSs 2010-2012 Cycle*[5]
Amendments to IFRSs	*Annual Improvements to IFRSs 2011-2013 Cycle*[3]

1 Available for application-the mandatory effective date will be determined when the outstanding phases of IFRS 9 are finalised
2 Effective for first annual IFRS financial statements beginning on or after 1 January 2016
3 Effective for annual periods beginning on or after 1 July 2014
4 Effective for annual periods beginning on or after 1 January 2014
5 Effective for annual periods beginning on or after 1 July 2014, with limited exceptions

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

IFRS 9-Financial Instruments

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. 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 other comprehensive income would create or enlarge an accounting mismatch in profit or loss.

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

IFRS 9-Financial Instruments *(continued)*

The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an "economic relationship". Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

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

IAS 19 Amendments-Defined Benefit Plans: Employee Contributions

The amendments to IAS 19 clarify the requirements relating to the contributions made by employees or the third parties attributed to the service period. It allows entity to adopt a practical method when the contribution is independent from the service period. The amendments are not expected to have significant impact on the financial position or performance of the Group upon adoption on 1 July 2014.

IAS 32 Amendments-Offsetting Financial Assets and Financial Liabilities

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 simultaneous. The amendments are not expected to have any significant impact on the financial position or performance of the Group upon adoption on 1 January 2014.

IAS 36 Amendments-Recoverable Amount Disclosures for Non-Financial Assets

The amendments to IAS 36 remove the requirement to disclose the recoverable amount of a cash generating unit (CGU) to which goodwill or other intangible assets with indefinite useful lives had been allocated when there has been no impairment or reversal of impairment of the related CGU. Furthermore, the amendments introduce additional disclosure requirements regarding the fair value hierarchy, key assumptions and valuation techniques used when the recoverable amount of an asset or CGU was determined based on its fair value less costs of disposal. The amendments are not expected to have any significant impact on the financial position or performance of the Group upon adoption on 1 January 2014.

IAS 39 Amendments-Novation of Derivatives and Continuation of Hedge Accounting

The amendments to IAS 39 provide relief from the requirement to discontinue hedge accounting when a derivative hedging instrument is novated under certain circumstances. The amendments also clarify that any change to the fair value of the derivative hedging instrument arising from the novation should be included in the assessment of hedge effectiveness. The amendments are not expected to have significant impact on the financial position or performance of the Group upon adoption on 1 January 2014.

2.4 ISSUED BUT NOT YET EFFECTIVE IFRSs – CONTINUED

IFRIC 21-Levies

IFRIC-Int 21 Levies addresses the issue of when to recognise a liability to pay a levy. The Interpretation defines a levy, and specifies that the obligating event that gives rise to the liability is the activity that triggers the payment of the levy, as identified by legislation. The Interpretation provides guidance on how different levy arrangements should be accounted for, in particular, it clarifies that neither economic compulsion nor the going concern basis of financial statements preparation implies that an entity has a present obligation to pay a levy that will be triggered by operating in a future period. The amendments are not expected to have any significant impact on the financial position or performance of the Group upon adoption on 1 January 2014.

Annual Improvements to IFRS 2010-2012 Cycle, 2011-2013 Cycle

The Annual Improvements 2010-2012 Cycle and 2011-2013 Cycle issued in December 2013 sets out amendments to a number of IFRSs. None of these amendments are expected to have any significant financial impact on the Group.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries for the year ended 31 December 2013. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

(1) Basis of consolidation – continued

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated income statement and statement of comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's shareholders' interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary, which is reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39, or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

(2) Investment in subsidiaries

Investments in subsidiaries are included in the Company's statement of financial position at cost less any identified impairment loss. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

(3) Investment in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances.

Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate, or when the investment (or a portion thereof) is classified as held for sale. Any retained portion of an investment in an associate that has not been classified as held for sale is accounted for using the equity method.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

(3) Investment in associates *(continued)*

Upon disposal or partial disposal of the Group's interest in an associate in which the Group lost significant influence and discontinued the use of equity method, any retained interest that is within the scope of IAS 39 is measured at fair value on the date, the difference between the carrying amount of the associate at the date, and the proceeds from disposing of such interest (or partial interest) in the associate and the fair value of the retained interest is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

When the Group reduces its ownership interest in an associate but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with an associate of the Group (such as a sale or contribution of assets), profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

(4) 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.

(5) Foreign currency translation

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

(5) Foreign currency translation *(continued)*

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are recorded using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded in their respective functional currency using exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates prevailing at the end of the reporting period. Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise, except for (i) exchange differences arising on a monetary item that forms part of the Group's net investment in a foreign operation, in which case, such exchange differences are recognised in other comprehensive income and accumulated in equity and will be reclassified from equity to profit or loss on disposal of the foreign operation; (ii) exchange differences arising from the changes of the fair value of monetary assets classified as available-for-sale financial assets (other than the changes relating to the amortised cost of the monetary assets) which are recognised in other comprehensive and accumulated in equity.

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 foreign operations 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 Group 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 foreign exchange 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 foreign operations are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of foreign operations which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

(6) 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 assets, 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.

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 net changes in fair value presented as investment income 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 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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

(6) Financial assets – continued

Subsequent measurement (continued)

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss

After initial recognition, available-for-sale financial assets are subsequently measured at fair value with unrealised gains or losses recognised as other comprehensive income in the available-for-sale financial asset revaluation reserve until the asset is derecognised or impaired, at which time the cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss. Interest and dividends earned whilst holding the available-for-sale financial assets are reported as investment 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.

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 is included in investment income in the income statement.

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, other than those the entity designates as at financial assets at fair value through profit or loss, available-for-sale financial assets or those meeting the definition of loans and receivables. 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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(6) Financial assets *(continued)*

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.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(7) 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.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. The determination of what is "significant' or "prolonged" requires judgement. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss-measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement-is reclassified from other comprehensive income and recognised in the income statement. Impairment losses on equity instruments classified as available-for-sale are not reversed through the income statement. Increases in their fair value after impairment are recognised directly in other comprehensive income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement. Future interest income continues to be accrued based on the reduced carrying amount of the asset and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of investment income. Impairment losses on debt instruments are reversed through the income statement if the increase in fair value of the instruments can be objectively related to an event occurring after the impairment loss was recognised in the income statement.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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.

(8) 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, or other financial liabilities at amortised cost as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(8) Financial liabilities *(continued)*

Initial recognition and measurement (continued)

Financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the issue of financial liabilities (other than financial liabilities at fair value through profit or loss) are deducted from the fair value of the financial liabilities on initial recognition. Transaction costs directly attributable to the acquisition of financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

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 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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(8) 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.

(9) 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. 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.

(10) 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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

Initial recognition and subsequent measurement (continued)

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.

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.

(11) 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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(11) Investment properties *(continued)*

For a transfer from investment properties to owner-occupied properties, 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.

(12) 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, other than construction in progress, to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Land and Buildings	1.43% to 19.40%
Office equipment, furniture and fixtures	7.92% 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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(13) Construction in progress

Construction in progress mainly represents buildings 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.

(14) 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.

The useful lives of software are from 3 to 10 years.

(15) Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than financial assets and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, 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.

An impairment loss is recognised only if the carrying amount of an asset exceeds 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. An impairment loss is charged to the income statement in the period in which it arises or treated as a revaluation decrease, as appropriate.

An assessment is made at the end of each reporting period 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 recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the income statement in the period in which it arises or treated as a revaluation increase, as appropriate.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(16) 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.

(17) 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 assessed by the Group is based on the additional amount that the Group needs to compensate policyholders upon the occurrence of the insurance events.

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 as financial liabilities. If the insurance component and the deposit component are not distinct and separately measurable, the whole contract is accounted for as an insurance contract.

(18) 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.

(19) Insurance contract liabilities

The insurance contract liabilities of the Group include long-term life insurance contract liabilities, long-term health 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 and long-term health insurance policies, the measurement unit is each individual insurance contract.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(19) Insurance contract liabilities *(continued)*

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.

For non-life insurance contracts, the Group amortises the residual margin on a time pro-rata 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 number of policies over the entire 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 at the end of the year.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(19) Insurance contract liabilities *(continued)*

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

Unearned premium reserves

Unearned premium reserves are provided for unexpired insurance obligations of non-life and short-term accident and health 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 cost of capital 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 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.

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 claims, taking into account 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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(19) Insurance contract liabilities *(continued)*

Long-term life insurance contract reserves and long-term health insurance contract reserves

Long-term life insurance contract reserves and long-term health insurance contract reserves 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 and health insurance contract reserves using the cost of capital method.

Any day-1 gain at policy inception is not recognised. Instead, it is incorporated into long-term life and health insurance contract liabilities as residual margin, and is amortised during the whole policy term and presented as changes in long-term life insurance contract reserves and long-term health insurance reserves.

The key assumptions used in the measurement of long-term life insurance contract reserves and long-term health insurance reserves 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 and health insurance contract liabilities. If the insurance contract liabilities re-calculated by 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 for the shortfall; otherwise, no adjustment is made for the respective insurance contract liabilities.

(20) 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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(21) Retirement benefits cost

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each annual reporting period. Remeasurement arising from actuarial gains and losses is reflected immediately in the statement of financial position with a charge or credit recognised in other comprehensive income in the period in which they occur. Remeasurement recognised in other comprehensive income is reflected immediately in retained profits and will not be reclassified to profit or loss. Past service cost is recognised in profit or loss in the period of a plan amendment. Interest expense is calculated by applying the discount rate at the beginning of the period to the defined benefit liability. Defined benefit costs are categorised as follows:

- Service costs (including past service costs, gains and losses on curtailment and settlements);
- Interest expenses; and
- Remeasurement.

The Group presents first two components of defined benefit costs in profit or loss in “Other Operating and Administrative Expenses” and “Finance Costs”. Curtailment gains and losses are accounted for as past service costs.

The retirement benefit obligation recognised in the consolidated statement of financial position represents the actual deficits in the Group’s defined benefit plan.

(22) Policyholder dividends

Policyholder dividends represent dividends payable by the Group to policyholders in accordance with the terms of insurance contracts. The dividends are calculated and provided based on the dividend distribution determination and the results of actuarial valuation.

(23) Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(23) Leasing *(continued)*

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as prepaid land premiums in the consolidated statement of financial position and amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

(24) 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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(24) Revenue recognition *(continued)*

Fee 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.

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.

(25) 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 premiums 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 and health 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 adjustments to premiums 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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(25) Reinsurance *(continued)*

Outward reinsurance business (continued)

Commissions receivable on outward reinsurance contracts are recorded as income in the income statement. The reinsurers' share of unearned premium reserves is reduced by commissions receivable on outward reinsurance contracts at inception and subsequently the reduced balance is released over the term of the contract in the same manner as the related unearned premium reserves.

Inward reinsurance business

When reinsurance premium income is recognised, the Group determines reinsurance expenses according to the reinsurance contracts and recognises the expenses through profit or loss. For profit commissions, the Group recognises them as a reinsurance expenses through profit or loss according to the reinsurance contracts when it is feasible to determine the amount of profit commission payable to the reinsurers.

(26) 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 direct costs that an entity incurs in connection with the borrowing of funds.

(27) Government grants

Government grants are recognised in profit or loss 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 government grant 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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(28) 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 a 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).

(29) 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 the interpretations and practices prevailing in the countries in which the Company and its subsidiaries operates.

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(29) Income tax *(continued)*

- 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 deductible temporary differences, the carry-forward of unused tax credits and any unused tax losses 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 end of the reporting period 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.

The measurement of deferred tax liabilities and assets reflect the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amounts of its assets and liabilities, other than described below.

For the purposes of measuring deferred tax liabilities or deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumed is rebutted. The presumption is rebutted when the investment properties are depreciable and is held within a business model whose objective is to consume substantially economic benefits embodied in the investment properties over time, rather than through sale.

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) 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 judgements on these classifications depend on the nature and purposes of acquiring these financial assets at their initial recognitions. Subsequent reclassifications may be made if the intention of holding a particular financial asset changed and that reclassification is permitted by IFRS.

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.

(2) Unbundling, classification and significant risk testing of contracts

The Group has made significant judgement on whether an 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 a 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 exhibiting homogenous risks for a particular product are grouped together. Subsequently, adequate representative samples are drawn from individual groups, taking into account their risk distributions and characteristics. All contracts in a particular group will be recognised as insurance contracts if more than 50% of the samples have transferred significant insurance risk.

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

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

Judgements *(continued)*

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

For equity instrument, 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 and volatility in evaluating whether a decline in value is significant. The Group considers the period and consistency of the decline in evaluating whether a decline in value is prolonged. In general, the larger the magnitude 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 the decline, the more likely that objective evidence of impairment of an equity instrument exists.

(4) 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. 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 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.

(5) Significant influence when less than 20 per cent of voting power is held

The Group determines whether it can exercise influence over an investee when it holds, directly or indirectly through subsidiaries, less than 20 per cent of the voting power of the investee, but one or more of the following indicators are present:

- representation on the board of directors or equivalent governing body of the investee;
- participation in policy-making processes, including participation in decisions about dividends or other distributions;
- material transactions between the investor and the investee;
- interchange of managerial personnel; or
- provision of essential technical information.

An investee as accounted for as an associate if it is concluded that the Group exercises significant influence over that investee; otherwise, it is accounted for as a financial asset in accordance with IAS 39.

The reasons for existence of significant influence over some investees, even though the voting rights held by the Group is less than 20%, are disclosed in note 23 to these consolidated financial statements.

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

Judgements *(continued)*

(6) Transfer of financial assets

Judgement is required to determine whether the transfer of a part or an entirety of a financial asset is qualified to be derecognised from the consolidated financial statements. Relevant disclosures are made in notes 18, 29 and 31 to these consolidated financial statements.

(7) Deferred taxation on investment properties

For the purposes of measuring deferred tax liabilities arising from investment properties that are measured using the fair value model, the directors have reviewed the Group's investment property portfolios in the PRC and concluded that the Group's investment properties are held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale. Therefore, in measuring the Group's deferred taxation on investment properties, the Group has determined that the presumption that the carrying amounts of investment properties measured using the fair value model are recovered entirely through sale is rebutted.

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 receivables with similar credit risk 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 expected future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

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

Estimation uncertainty *(continued)*

(2) Impairment of unquoted equity investments measured at cost (continued)

The measurement of provision for impairment loss of unquoted 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 18.

(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.

(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 of disposal and the present value of expected future cash flows. Fair value less costs of disposal 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) Valuation of insurance contract liabilities

At the end of the reporting period, when measuring the insurance contract reserve, 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.

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

Estimation uncertainty *(continued)*

(5) Valuation of insurance contract liabilities (continued)

The main assumptions made in measuring these liabilities 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 50-107 basis points as at 31 December 2013 (31 December 2012: 50-94 basis points). The discount rates including premiums used as at 31 December 2013 were 3.57%-6.42% (31 December 2012: 3.12%-6.29%).

  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 2013 were 5.00%-5.50% (31 December 2012: 5.25%-5.50%).

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

- Mortality, morbidity and 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 macroeconomy 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.

- 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.

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

Estimation uncertainty *(continued)*

(5) Valuation of insurance contract liabilities (continued)

- 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 (2012: 39.5%). Other lines of insurance are referenced to the industry guideline of 3%.

- 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-calculated at 39% at the end of 2013 (2012: 39%). Other lines of insurance are made reference to the industry guideline of 2.5%.

The major assumptions needed in measuring claim reserves include the claim development factors and expected claim ratios, 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 ratios 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 processes, and changing trends in external environment such as economic conditions, regulations and legislation

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 underprovision or overprovision of the reserve, which is an estimate of the ultimate losses.

(6) 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 estimated timing and level of future taxable profits as well as the applicable tax rates together with future tax planning strategies.

There are some uncertainties on the estimation of future taxable profit as it involves a number of estimations for future transactions, including whether the actuarial assumptions and experience are consistent, the performance of future investment market, as well as the impacts of any changes in corporate tax law.

(7) Fair value of investment properties

The fair value of investment properties is based on regular appraisals by independent professional valuers. Valuation of investment properties involves various assumptions and techniques. The principal assumptions and valuation methodology of investment properties are set out in note 24 to these consolidated financial statements.

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

Estimation uncertainty *(continued)*

(8) Retirement benefit liabilities

The Group measured certain employee retirement benefits using projected unit credit method, when these benefit plans met the definition of defined benefit plans as set out in IAS 19. Carrying value of these liabilities and the principal assumptions used in measuring these liabilities are set out in note 36 to these consolidated financial statements.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has the following operating and reportable 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 medical 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 segment profit/(loss).

As the revenue, net profit, assets and liabilities of operations outside Mainland China constitutes less than 1% of the consolidated amounts in these financial statements, geographical segmental information is not presented.

Intersegment sales are transacted according to terms and conditions negotiated by the relevant parties within the Group.

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.

(Amounts in millions of Renminbi, unless otherwise stated)

4. OPERATING SEGMENT INFORMATION *(continued)*

Segment revenue and results for the year ended 31 December 2013:

	Non-life Insurance *in RMB million*	Life insurance *in RMB million*	Health insurance *in RMB million*	Asset management *in RMB million*	Head–quarters *in RMB million*	Others *in RMB million*	Eliminations *in RMB million*	Total *in RMB million*
Net earned premiums	183,125	74,986	5,193	–	–	–	(44)	263,260
Reinsurance commission income	11,194	22	261	–	–	–	–	11,477
Investment income	10,568	15,411	992	431	3,890	133	(3,596)	27,829
Other income	1,239	429	113	811	61	274	(755)	2,172
TOTAL INCOME – SEGMENT REVENUE	206,126	90,848	6,559	1,242	3,951	407	(4,395)	304,738
–External income	206,030	90,564	6,549	595	816	184	–	304,738
–Intersegment income	96	284	10	647	3,135	223	(4,395)	–
Claims and policyholders' benefits	121,355	81,950	4,985	–	–	–	–	208,290
Handling charges and commissions	19,030	2,605	177	16	–	–	(169)	21,659
Finance costs	2,060	1,948	731	5	743	25	–	5,512
Exchange losses, net	136	132	2	1	375	–	–	646
Other operating and administrative expenses	49,358	4,213	1,459	779	621	392	(890)	55,932
TOTAL BENEFITS, CLAIMS AND EXPENSES	191,939	90,848	7,354	801	1,739	417	(1,059)	292,039
Share of profits and losses of associates	1,221	1,134	–	(4)	698	–	(78)	2,971
PROFIT/(LOSS) BEFORE TAX	15,408	1,134	(795)	437	2,910	(10)	(3,414)	15,670
Income tax (expense)/credit	(3,209)	(308)	–	(108)	(25)	(13)	48	(3,615)
PROFIT/(LOSS) FOR THE YEAR –SEGMENT RESULTS	12,199	826	(795)	329	2,885	(23)	(3,366)	12,055

(Amounts in millions of Renminbi, unless otherwise stated)

4. OPERATING SEGMENT INFORMATION *(continued)*

Segment revenue and results for the year ended 31 December 2012:

	Non-life Insurance *in RMB million*	Life insurance *in RMB million*	Health insurance *in RMB million*	Asset management *in RMB million*	Head–quarters *in RMB million*	Others *in RMB million*	Eliminations *in RMB million*	Total *in RMB million*
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 – SEGMENT REVENUE	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 (expense)/credit	(2,952)	80	–	(436)	21	(87)	198	(3,176)
PROFIT/(LOSS) FOR THE YEAR –SEGMENT RESULTS	10,407	760	(743)	298	1,813	36	(2,427)	10,144

(Amounts in millions of Renminbi, unless otherwise stated)

4. OPERATING SEGMENT INFORMATION *(continued)*

Segment assets and liabilities as at 31 December 2013 and 2012:

	Non-life Insurance *in RMB million*	Life insurance *in RMB million*	Health insurance *in RMB million*	Asset management *in RMB million*	Head–quarters *in RMB million*	Others *in RMB million*	Eliminations *in RMB million*	Total *in RMB million*
31 December 2013								
Segment assets	**321,971**	**366,913**	**29,144**	**7,448**	**105,503**	**5,413**	**(81,073)**	**755,319**
Segment liabilities	**262,799**	**344,195**	**27,841**	**1,631**	**24,749**	**1,653**	**(2,350)**	**660,518**
Other segment information:								
Capital expenditures	**1,807**	**1,608**	**25**	**120**	**150**	**66**	**–**	**3,776**
Depreciation and amortisation	**1,934**	**87**	**42**	**18**	**58**	**116**	**(8)**	**2,247**
Interest income	**8,785**	**12,189**	**942**	**133**	**402**	**12**	**–**	**22,463**
Impairment losses	**1,539**	**1,946**	**25**	**–**	**–**	**29**	**–**	**3,539**
Gain on reclassification of available-for-sale financial assets to an associate	**1,282**	**990**	**–**	**–**	**176**	**–**	**–**	**2,448**
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 expenditures	2,727	1,770	40	64	165	25	–	4,791
Depreciation and amortisation	1,369	79	48	18	41	31	223	1,809
Interest income	7,581	10,298	713	120	12	6	–	18,730
Impairment losses	1,583	2,113	666	13	–	(14)	–	4,361

The headquarters, life and non-life segments hold equity interests of 0.91%, 4.98% and 4.98%, respectively, in an associate. These interests are accounted for as available-for-sale financial assets in the financial statements of the Company or a principal subsidiary. On consolidation, these interests in aggregate are accounted for as an associate and the impacts of relevant adjustments to the consolidated financial statements are allocated to the respective segments according to their respective equity interest holding.

(Amounts in millions of Renminbi, unless otherwise stated)

5. GROSS AND NET WRITTEN PREMIUMS

		2013	2012
(a)	Gross written premiums		
	Long-term life insurance premiums	**74,723**	64,639
	Short-term life insurance premiums	**8,076**	6,991
	Non-life insurance premiums	**223,622**	193,586
	Total	**306,421**	265,216
(b)	Premiums ceded to reinsurers		
	Long-term life insurance premiums ceded to reinsurers	**(271)**	(219)
	Short-term life insurance premiums ceded to reinsurers	**(2,229)**	(2,215)
	Non-life insurance premiums ceded to reinsurers	**(31,311)**	(28,972)
	Total	**(33,811)**	(31,406)
	Net written premiums	**272,610**	233,810

6. INVESTMENT INCOME

	2013	2012
Dividend, interest and rental income (a)	**27,248**	22,019
Realised gains/(losses) (b)	**3,570**	650
Fair value gains/(losses) (c)	**334**	1,525
Impairment losses (d)	**(3,323)**	(4,151)
TOTAL	**27,829**	20,043

(Amounts in millions of Renminbi, unless otherwise stated)

6. INVESTMENT INCOME *(continued)*

(a) Dividend, interest and rental income

	2013	2012
Operating lease income from investment properties	278	255
Interest income		
Current and term deposits	7,495	6,831
Debt securities		
–Held-to-maturity	5,969	4,940
–Available-for-sale	4,656	4,267
–Held-for-trading	74	101
Derivative financial assets	32	33
Loans and receivables	4,237	2,558
SUBTOTAL	22,463	18,730
Dividend income		
Equity securities		
–Available-for-sale	4,340	2,757
–Held-for-trading	167	277
SUBTOTAL	4,507	3,034
TOTAL	27,248	22,019

An analysis of the dividend income from listed and unlisted equity securities is as follows:

	2013	2012
Dividend income		
Listed equity securities	698	765
Unlisted equity securities	3,809	2,269
TOTAL	4,507	3,034

(Amounts in millions of Renminbi, unless otherwise stated)

6. INVESTMENT INCOME *(continued)*

(b) Realised gains/(losses)

	2013	2012
Debt securities		
– Available-for-sale	(85)	(123)
– Held-for-trading	(9)	1
Equity securities		
– Available-for-sale	3,673	(332)
– Carried at fair value through profit or loss	(9)	903
– Gain on disposals of subsidiaries	–	201
TOTAL	3,570	650

(c) Fair value gains/(losses)

	2013	2012
Debt securities		
– Held-for-trading	(42)	(26)
Equity securities		
– Held-for-trading	87	649
Derivative financial instruments		
– Held-for-trading	(7)	(13)
Investment properties *(note 24)*	296	915
TOTAL	334	1,525

(d) Impairment losses

	2013	2012
Debt securities		
– Available-for-sale	–	(4)
Equity securities		
– Available-for-sale	3,323	4,145
– Investments in associates	–	10
TOTAL	3,323	4,151

(Amounts in millions of Renminbi, unless otherwise stated)

7. OTHER INCOME

	2013	2012
Management fee charged to policyholders	421	538
Disposal gains from property and equipment, and intangible assets	83	189
Government grants	99	96
Others	1,569	1,228
TOTAL	2,172	2,051

8. CLAIMS AND POLICYHOLDERS' BENEFITS

	2013		
	Gross	Ceded	Net
Life insurance death and other benefits paid	28,597	5	28,592
Claims incurred, net	147,140	21,974	125,166
– Short-term life insurance	5,924	2,114	3,810
– Non-life insurance	141,216	19,860	121,356
Changes in long-term life insurance contract liabilities	51,206	(3)	51,209
Policyholder dividends	3,323	–	3,323
TOTAL	230,266	21,976	208,290

	2012		
	Gross	Ceded	Net
Life insurance death and other benefits paid	15,226	13	15,213
Claims incurred, net	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

(Amounts in millions of Renminbi, unless otherwise stated)

9. FINANCE COSTS

	2013	2012
Interest expenses		
Securities sold under agreements to repurchase	1,545	812
Subordinated debts	1,892	1,952
Due to banks and other financial institutions	27	21
Interest credited to policyholders *(note 35)*	1,941	1,928
Pension benefit obligation unwound *(note 36)*	107	108
Others	3	169
Less: amounts capitalised in qualifying assets	(3)	(1)
TOTAL	5,512	4,989

10. PROFIT BEFORE TAX

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

	2013	2012
Employee costs (a)	23,411	17,470
Depreciation of property and equipment *(note 25)*	2,031	1,621
Impairment losses on insurance receivables *(note 19)*	188	236
Impairment losses on other receivables	28	(26)
Minimum lease payments under operating leases in respect of land and buildings	582	706
Amortisation of intangible assets *(note 26)*	90	65
Amortisation of prepaid land premium *(note 27)*	126	123
Auditors' remuneration	28	32

(a) Employee costs:

	2013	2012 (Restated)
Employee costs (including directors' and supervisors' remuneration)		
– Salaries, allowances and performance related bonuses	21,516	15,965
– Pension scheme contributions	1,895	1,505
	23,411	17,470

(Amounts in millions of Renminbi, unless otherwise stated)

11. DIRECTORS' AND SUPERVISORS' REMUNERATION

Directors' and supervisors' remuneration for the years 2013 and 2012, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	2013 (in RMB '000)	2012 (in RMB '000) (Restated)
Fees	600	517
Other emoluments		
– Salaries and allowances	3,857	4,059
– Performance related bonuses	–	4,763
– Social insurance, housing fund and other benefits	2,232	2,251
	6,689	11,590

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 2013 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 2013 financial statements.

(a) Independent Non-executive Directors

The fees paid to Independent Non-executive Directors during 2013 and 2012 were as follows:

	2013 (in RMB '000)	2012 (in RMB '000) (Restated)
Mr. Xiang Huaicheng (i)	–	–
Mr. Lau Hon Chuen (ii)	200	117
Mr. Du Jian (i)	–	–
Mr. Cai Weiguo	200	200
Mr. Xu Dingbo	200	200
	600	517

There were no other emoluments payable to the Independent Non-executive Directors during the year (2012: Nil).

(i) For the year ended 31 December 2013, Mr. Xiang Huaicheng and Mr Du Jian did not receive any remuneration from the Company.

(ii) Mr. Lau Hon Chuen was elected as an Independent Non-executive Director at the shareholder's meeting in 14 June 2012. The compensation for the year ended 31 December 2012 was approved in 2013 and his remuneration was restated for his office from July to December of 2012.

(Amounts in millions of Renminbi, unless otherwise stated)

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

(b) Chairman of the Board, Directors and Supervisors

	Year ended 31 December 2013		
	Salaries and allowances (in RMB '000)	Social insurance, housing fund and other benefits (in RMB '000)	Total (in RMB '000)
Chairman of the Board:			
Mr. Wu Yan	803	428	1,231
Executive Directors:			
Mr. Wang Yincheng (i)	723	388	1,111
Mr. Li Liangwen	723	435	1,158
Non-executive Directors:			
Mr. Cao Guangsheng	–	–	–
Mr. Liu Yeqiao	–	–	–
Mr. Qi Shaojun	–	–	–
Ms. Zhang Hanlin	–	–	–
Supervisors:			
Mr. Lin Fan	723	400	1,123
Mr. Xu Yongxian	463	258	721
Ms. Yao Bo	422	323	745
	3,857	2,232	6,089

(Amounts in millions of Renminbi, unless otherwise stated)

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

(b) Chairman of the Board, Directors and Supervisors *(continued)*

	Year ended 31 December 2012 (Restated)			
	Salaries and allowances (in RMB '000)	Performance related bonuses (in RMB '000)	Social insurance, housing fund and other benefits (in RMB '000)	Total (in RMB '000)
Chairman of the Board:				
Mr. Wu Yan	704	903	374	1,981
Executive Directors:				
Mr. Ding Yunzhou (ii)	558	670	273	1,501
Mr. Wang Yincheng (i)	701	745	350	1,796
Mr. Li Liangwen	701	745	400	1,846
Non-executive Directors:				
Mr. Cao Guangsheng	–	–	–	–
Mr. Liu Yeqiao	–	–	–	–
Mr. Qi Shaojun	–	–	–	–
Ms. Zhang Hanlin	–	–	–	–
Ms. Hu Donghui (iii)	–	–	–	–
Supervisors:				
Mr. Lin Fan	469	495	250	1,214
Mr. Zhou Shurui (iv)	164	197	83	444
Mr. Xu Yongxian	411	515	244	1,170
Ms. Yao Bo	351	493	277	1,121
	4,059	4,763	2,251	11,073

The compensation amounts for these directors and supervisors for the year ended 31 December 2012 were restated based on the finalised amounts determined during 2013.

(i) Mr. Wang Yincheng is partially remunerated by a subsidiary of the Group.

(ii) Mr. Ding Yunzhou resigned in November 2012.

(iii) Ms. Hu Donghui resigned in March 2012.

(iv) Mr. Zhou Shurui resigned in March 2012.

(Amounts in millions of Renminbi, unless otherwise stated)

12. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals in the Company include three directors/supervisors for the year ended 31 December 2013 and 2012. Details of the remaining highest paid individuals are set out below:

	2013 (in RMB '000)	2012 (in RMB '000) (Restated)
Salaries, allowances	1,446	1,402
Performance related bonuses	–	1,490
Social insurance and housing fund	880	832
	2,326	3,724

The above two highest paid individuals whose remuneration fell within the following bands is as follows:

	2013	2012
HKD 1,000,001 to HKD 1,500,000	2	–
HKD 2,000,001 to HKD 2,500,000	–	2
	2	2

The compensation amounts for these highest paid non-directors/supervisors for the year ended 31 December 2012 were restated based on the finalised amounts determined during 2013. One of the non-directors/supervisors is remunerated by a subsidiary of the Group.

13. INCOME TAX EXPENSE

	2013	2012
Current income tax		
– Charge for the year	2,976	3,119
– Adjustments in respect of current tax of previous periods	1	3
Deferred income tax *(note 28)*	638	54
TOTAL	3,615	3,176

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% (2012: 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.

(Amounts in millions of Renminbi, unless otherwise stated)

13. INCOME TAX EXPENSE *(continued)*

The People's Insurance Company of China (Hong Kong) Limited ("PICC Hong Kong"), a subsidiary incorporated in Hong Kong, was subject to a profits tax rate of 16.5% in 2013 (2012: 16.5%).

A reconciliation of the tax expense 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:

	2013	2012
Profit before tax	**15,670**	13,320
Tax at the statutory tax rate	**3,918**	3,330
Adjustments in respect of current tax of previous periods	**1**	3
Tax effect of share of profits and losses of associates	**(743)**	(143)
Income not subject to tax	**(1,002)**	(917)
Expenses not deductible for tax	**343**	592
Utilisation of tax losses previously not recognised	**(88)**	(108)
Unrecognised deductible temporary differences and tax losses	**1,191**	422
Effects of different tax rates applied to subsidiaries	**(5)**	(3)
Tax charge at the Group's effective tax rate	**3,615**	3,176
Effective tax rate	**23.1%**	23.8%

14. EARNINGS PER SHARE AND DIVIDENDS

(a) Earnings per share

The calculation of basic earnings per share for the years 2013 and 2012 is based on the profit attributable to equity holders of the parent and the weighted average number of ordinary shares in issue during the year.

	2013	2012
Profit attributable to equity holders of the parent for the year	**8,121**	6,832
Weighted average number of ordinary shares (in million shares)	**42,424**	34,973
Basic earnings per share (in RMB)	**0.19**	0.20

No diluted earnings per share has been presented for the years 2013 and 2012 as the Group had no potential ordinary shares in issue during 2013 and 2012.

(Amounts in millions of Renminbi, unless otherwise stated)

14. EARNINGS PER SHARE AND DIVIDENDS *(continued)*

(b) Dividends

	2013	2012
Dividends recognised as distribution during the year		
2012 Final-RMB 0.38458 cent per share	**163**	–

As at 28 March 2014, a final dividend in respect of the year ended 31 December 2013 of RMB0.83 cent (2012: final dividend in respect of the year ended 31 December 2012 of RMB0.38458 cent) per share has been proposed by the Board of Directors and is subject to approval by the shareholders in the forthcoming general meeting.

The proposed dividend for year ended 31 December 2013 amounts to RMB352 million (2012: RMB163 million).

15. CASH AND CASH EQUIVALENTS

The Group	**31 December 2013**	31 December 2012
Cash on hand	**6**	179
Securities purchased under resale agreements with original maturity of less than three months	**6,583**	2,435
Deposits with banks with original maturity of less than three months	**40,018**	71,259
TOTAL	**46,607**	73,873

The Company	**31 December 2013**	31 December 2012
Securities purchased under resale agreements with original maturity of less than three months	**299**	–
Deposits with banks with original maturity of less than three months	**2,577**	22,325
TOTAL	**2,876**	22,325

For securities purchased under resale agreements, counterparties are required to pledge certain bonds as collaterals. The carrying amounts disclosed above reasonably approximate to the fair values of those collaterals at the year end.

(Amounts in millions of Renminbi, unless otherwise stated)

16. DERIVATIVE FINANCIAL INSTRUMENTS

	As at 31 December 2013		
	Notional amount	Derivative financial assets	Derivative financial liabilities
Interest rate swaps			
– Hedging instruments	6,380	16	(10)
TOTAL	6,380	16	(10)

	As at 31 December 2012		
	Notional 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)

Interest rate swaps are stated at their fair values.

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 consolidated statement of comprehensive income.

(Amounts in millions of Renminbi, unless otherwise stated)

17. DEBT SECURITIES

The Group	31 December 2013	31 December 2012
Government bonds	**19,191**	20,860
Corporate bonds	**108,905**	69,920
Bonds issued by other financial institutions	**115,660**	126,589
Total debt securities	**243,756**	217,369
Classification of debt securities:		
Fair value through profit or loss		
– held for trading, at fair value	**1,967**	3,085
Available-for-sale, at fair value	**116,973**	95,125
Held-to-maturity, at amortised cost	**124,816**	119,159
Total debt securities	**243,756**	217,369
Listed debt securities		
– Hong Kong	**960**	4,491
– Elsewhere	**40,764**	18,216
Unlisted debt securities	**202,032**	194,662
Total debt securities	**243,756**	217,369

The Company	31 December 2013	31 December 2012
Corporate bonds	**4,510**	–
Bonds issued by other financial institutions	**2**	–
Total debt securities	**4,512**	–
Classification of debt securities:		
Fair value through profit or loss		
– held for trading, at fair value	**71**	–
– Available-for-sale, at fair value	**4,441**	–
Total debt securities	**4,512**	–
Listed debt securities		
– Hong Kong	**507**	–
– Elsewhere	**199**	–
Unlisted debt securities	**3,806**	–
Total debt securities	**4,512**	–

(Amounts in millions of Renminbi, unless otherwise stated)

17. DEBT SECURITIES *(continued)*

Unlisted debt securities are traded in interbank market in the Mainland China or other active over-the-counter market.

18. EQUITY SECURITIES

The Group	31 December 2013	31 December 2012
Investments, at fair value:		
Mutual funds	49,169	44,859
Shares	20,031	48,620
Subtotal	69,200	93,479
Investments, at cost:		
Shares	1,612	1,629
Trust schemes	26,800	24,621
Total equity securities	97,612	119,729
Classification of equity securities:		
Fair value through profit or loss		
– held for trading, at fair value	16,780	6,834
Available-for-sale		
– at fair value	52,420	86,645
– at cost less impairment	28,412	26,250
Total equity securities	97,612	119,729
Listed equity securities		
– Hong Kong	2,264	1,139
– Elsewhere	18,536	47,999
Unlisted equity securities	76,812	70,591
Total equity securities	97,612	119,729

(Amounts in millions of Renminbi, unless otherwise stated)

18. EQUITY SECURITIES *(continued)*

The Company	31 December 2013	31 December 2012
Investments, at fair value:		
Mutual funds	**6,129**	322
Shares	**3,437**	2,096
Subtotal	**9,566**	2,418
Investments, at cost:		
Shares	**268**	268
Total equity securities	**9,834**	2,686
Classification of equity securities:		
Fair value through profit or loss		
– held for trading, at fair value	**5,443**	20
Available-for-sale		
– at fair value	**4,123**	2,398
– at cost less impairment	**268**	268
Total equity securities	**9,834**	2,686
Listed equity securities		
– Hong Kong	**1,589**	398
– Elsewhere	**1,848**	1,698
Unlisted equity securities	**6,397**	590
Total equity securities	**9,834**	2,686

For the Group, unlisted equity investments and trust schemes with a carrying amount of RMB28,412 million as at 31 December 2013 (31 December 2012: RMB26,250 million) were carried at cost less impairment, as their fair values cannot be measured reliably. Returns on these trust schemes are not fixed nor determinable and depend on the performance of underlying assets. Asset managers of these schemes do not publish any fair value of their underlying assets on a regular basis.

For the Company, an unlisted equity investment of RMB268 million (31 December 2012: RMB268 million) was carried at cost less impairment as the fair value cannot be measured reliably.

(Amounts in millions of Renminbi, unless otherwise stated)

18. EQUITY SECURITIES *(continued)*

On 1 April 2012, the Company signed an agreement with China Credit Trust Company Limited ("China Credit Trust"), an associate, to transfer its interests of RMB260 million, which is stated at cost, in Bank of Hangzhou and a right on a receivable of RMB406 million due from No. 88 Development Company, a subsidiary, to a trust scheme held in the custody of China Credit Trust. The Company signed a repurchase commitment letter to undertake the risks relating to the transferred assets and therefore the Company did not derecognise these financial assets in its financial statements. These interests were restricted for sale by the Company as at 31 December 2013 and 2012. An amount of RMB679 million received from this transfer of financial assets was presented as other liabilities as at 31 December 2013 and 2012.

These interests were repurchased by the Company in January 2014.

19. INSURANCE RECEIVABLES, NET

The Group	31 December 2013	31 December 2012
Insurance receivables	**29,075**	25,719
Less: Impairment provision on insurance receivables	**(2,313)**	(2,414)
TOTAL	**26,762**	23,305

(a) The movements of provision for impairment of insurance receivables are as follows:

	31 December 2013	31 December 2012
At 1 January	**2,414**	2,453
Impairment losses recognised *(note 10)*	**188**	236
Amount written off as uncollectible	**(289)**	(275)
At 31 December	**2,313**	2,414

(Amounts in millions of Renminbi, unless otherwise stated)

19. INSURANCE RECEIVABLES, NET *(continued)*

The Group ***(continued)***

(b) An aged analysis of insurance receivable as at the end of the reporting period, based on the payment due date and net of provision, is as follows:

	31 December 2013	31 December 2012
Within 3 months	**24,813**	20,277
3 to 6 months	**1,031**	1,976
6 to 12 months	**671**	727
1 to 2 years	**177**	235
Over 2 years	**70**	90
Total	**26,762**	23,305

20. REINSURERS' SHARE OF INSURANCE CONTRACT PROVISIONS

The Group	31 December 2013	31 December 2012
Reinsurers' share of		
Unearned premium reserves	**11,200**	9,462
Claim reserves	**15,954**	14,342
Long-term life insurance reserves	**68**	71
TOTAL	**27,222**	23,875

(Amounts in millions of Renminbi, unless otherwise stated)

21. TERM DEPOSITS

The original maturities of the term deposits are as follows:

The Group	31 December 2013	31 December 2012
More than 3 months to 1 year	**9,885**	4,442
1 to 2 years	**6**	100
2 to 3 years	**2,311**	1,062
More than 3 years	**125,405**	114,511
TOTAL	**137,607**	120,115

The Company	31 December 2013	31 December 2012
More than 3 months to 1 year	**5,970**	115

These term deposits of the Group and the Company bear fixed or variable interests and range from 0.75% to 7.50% and 0.75% to 5.20% per annum as at 31 December 2013, respectively. Certain of these deposits are reverse floaters and range floaters but the relevant embedded derivatives are considered closely related to the economic risks and characteristics of the host contracts. Therefore, these embedded derivatives are not separated from the host contracts.

22. INVESTMENTS IN SUBSIDIARIES

The Company	31 December 2013	31 December 2012
Unlisted investments, at cost	**41,963**	33,525
Shares listed in Hong Kong, at cost	**32,485**	28,486
TOTAL	**74,448**	62,011
Market value of shares listed in Hong Kong	**84,850**	74,444

As at 31 December 2013, 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 ("PICC P&C"), which is listed on the Main Board of the Hong Kong Stock Exchange.

(Amounts in millions of Renminbi, unless otherwise stated)

22. INVESTMENTS IN SUBSIDIARIES *(continued)*

(a) General information of subsidiaries

The particulars of the principal subsidiaries as of 31 December 2013 are set out below:

Name	Place of incorporation/ registration	Nominal value of registered share capital	Proportion of shareholders' interest and voting rights 31 December 2013 Direct	31 December 2013 Indirect	31 December 2012 Direct	31 December 2012 Indirect	Principal activities/ place of operation
PICC P&C	Beijing	RMB 13,604,138,000	**68.98%**	**–**	68.98%	–	Non-life insurance, China
PICC Asset Management Company Limited ("PICC AMC")	Shanghai	RMB 800,000,000	**81.00%**	**–**	81.00%	–	Management of insurance investments, China
PICC Capital Investment Management Company Limited ("PICC Capital")	Beijing	RMB 200,000,000	**100.00%**	**–**	–	100.00%	Investment management, China
PICC Health Insurance Company Limited ("PICC Health")	Beijing	RMB 4,679,859,167	**89.87%**	**2.38%**	89.11%	2.56%	Health insurance, China
PICC Life Insurance Company Limited ("PICC Life")	Beijing	RMB 25,761,104,669	**71.08%**	**8.92%**	71.08%	8.92%	Life insurance, China
PICC Investment Holding Company Limited (PICC Investment Holding)	Beijing	RMB 800,000,000	**100.00%**	**–**	100.00%	–	Investment holding, China
PICC Hong Kong	Hong Kong	HKD 360,000,000	**75.00%**	**–**	75.00%	–	P&C insurance, Hong Kong
Zhongsheng International Insurance Brokers Company Limited	Beijing	RMB 170,727,800	**92.71%**	**–**	88.08%	–	Insurance and reinsurance brokerage, China
PICC Services (Europe) Ltd.	London	GBP 500,000	**100.00%**	**–**	100.00%	–	Claim handling agency, London
No. 88 Development Company	Beijing	RMB 500,596,647	**100.00%**	**–**	1.00%	99.00%	Estate services and property management, China

(Amounts in millions of Renminbi, unless otherwise stated)

22. INVESTMENTS IN SUBSIDIARIES *(continued)*

(a) General information of subsidiaries *(continued)*

Only principal subsidiaries which are directly held by the Company and have material impact on the consolidated financial statements are listed above. Other subsidiaries did not materially affect the Group's net financial position and operating results and were therefore not separately disclosed.

Borrowings and debt securities issued by these subsidiaries are set out in notes 32 and 33 to these consolidated financial statements.

At the end of the reporting period, the Company has other indirectly held subsidiaries that are not material to the Group. The principal activities of these subsidiaries are summarised as follows:

Principal activity subsidiaries	Place of incorporation and operation	Number of subsidiaries 31 December 2013	31 December 2012
Insurance intermediaries	Shanghai and others	5	5
Insurance training services	Hainan	1	1
Property development and management	Beijing, Shanghai and others	5	4
Hotels and restaurants	Sichuan and Zhejiang	2	3
		13	13

(b) Details of non-wholly owned subsidiaries that have material non-controlling interests

The table below shows details of non-wholly owned subsidiaries of the Group that have material non-controlling interests:

Name of subsidiary	Place of incorporation and principal place of business	Proportion of ownerships' interests and voting rights held by non-controlling interests 31 December 2013	31 December 2012	Profit allocated to non-controlling interests 31 December 2013	31 December 2012	Accumulated non-controlling interests 31 December 2013	31 December 2012
PICC P&C and its subsidiaries	Beijing	31.02%	31.02%	3,275	3,228	17,841	14,099
PICC Life	Beijing	20.00%	20.00%	165	152	4,544	3,522

Summarised financial information in respect of each of the Group's subsidiaries that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup elimination.

(Amounts in millions of Renminbi, unless otherwise stated)

22. INVESTMENTS IN SUBSIDIARIES *(continued)*

(b) Details of non-wholly owned subsidiaries that have material non-controlling interests *(continued)*

In particular, an interest in an equity instrument is accounted for as an available-for-sale financial assets in the consolidated financial statements of PICC P&C but when combined with voting rights held by the Company and PICC Life, are accounted for as an associate in the Group's consolidated financial statements. The information presented below does not consider the impact had these equity interests been accounted for as an associate in the consolidated financial statements of PICC P&C.

PICC P&C

	31 December 2013	31 December 2012
Total assets	319,424	290,424
Total liabilities	261,920	244,974
Total shareholders' equity	57,504	45,450

	2013	2012
Total income	204,738	173,831
Total benefits, claims and expenses	(191,376)	(160,548)
Share of profits and losses of associates	77	66
Income tax expense	(2,881)	(2,944)
Profit for the year	10,558	10,405
Other comprehensive (expenses)/income for the year	(941)	2,459
Total comprehensive income for the year	9,617	12,864
Dividends paid to non-controlling interests	1,025	798
Net cash inflow from operating activities	22,297	9,897
Net cash outflow from investing activities	(14,405)	(16,670)
Net cash (outflow)/inflow from financing activities	(4,510)	5,528
Net cash inflow/(outflow)	3,382	(1,245)

(Amounts in millions of Renminbi, unless otherwise stated)

22. INVESTMENTS IN SUBSIDIARIES *(continued)*

(b) Details of non-wholly owned subsidiaries that have material non-controlling interests *(continued)*

PICC Life

	31 December 2013	31 December 2012
Total assets	**366,913**	336,495
Total liabilities	**344,195**	318,885
Total shareholders' equity	**22,718**	17,610

	2013	2012
Total income	**90,848**	75,750
Total benefits, claims and expenses	**(90,848)**	(75,112)
Share of profits and losses of associates	**1,134**	42
Income tax expense	**(308)**	80
Profit for the year	**826**	760
Other comprehensive (expense)/income for the year	**(1,345)**	4,411
Total comprehensive (expense)/income for the year	**(519)**	5,171
Dividends paid to non-controlling interests	**–**	–
Net cash inflow from operating activities	**32,212**	40,685
Net cash outflow from investing activities	**(28,351)**	(51,124)
Net cash (outflow)/inflow from financing activities	**(15,789)**	6,634
Net cash outflow	**(11,938)**	(3,805)

(Amounts in millions of Renminbi, unless otherwise stated)

22. INVESTMENTS IN SUBSIDIARIES *(continued)*

(c) Changes in ownership interests in subsidiaries

During the year, as certain non-controlling interests do not subscribed new shares issued by PICC Health, the ownership interests of the Company in this subsidiary was increased from 91.67% to 92.25% and amount of RMB26 million, which represent the difference between the considerations paid and the Company's share of net assets of this subsidiary, was debited to other reserves.

During the year, the Company purchased 99% ownership interest in No. 88 Development Company from subsidiaries with non-controlling interests. As a result of this transaction, an amount of RMB65 million was debited to other reserves.

(d) Significant restrictions

As certain subsidiaries of the Company are engaged in insurance business and regulated by the relevant insurance regulatory authorities, the ability of Company and its subsidiaries to access assets held by these subsidiaries to settle liabilities of the Group is restricted.

23. INVESTMENTS IN ASSOCIATES

(a) The Group's and the Company's investments in the principal associates as at 31 December 2013 and 2012 are as follows:

The Group	31 December 2013	31 December 2012
Share of net assets:		
Listed investments in Mainland China	22,472	–
Unlisted investments	5,796	3,361
Total	28,268	3,361
Fair value of shares listed in Mainland China	18,679	–

On 31 December 2013, except for the Industrial Bank Co., Ltd. ("Industrial Bank") which was listed on The Shanghai Stock Exchange Limited, Mainland China, all other associates that the Group holds interests in are unlisted companies.

The Company	31 December 2013	31 December 2012
Unlisted investments	3,671	3,301

(Amounts in millions of Renminbi, unless otherwise stated)

23. INVESTMENTS IN ASSOCIATES *(continued)*

(b) Particulars of the principal associates are as follows:

Associates	Place of registration	Principal activities/ Place of operation	Percentage of ownership interest and voting rights held by the Group: 31 December 2013 Direct	31 December 2013 Indirect	31 December 2012 Direct	31 December 2012 Indirect
Industrial Bank (1)	Fujian	Bank, China	**0.91%**	**9.96%**	0.91%	9.96%
China Credit Trust	Beijing	Trust business, China	**32.92%**	–	32.92%	–
China Aerospace Investment Holdings Limited ("Aerospace Investment") (2)	Beijing	Investment holding, China	–	**16.84%**	–	–

The above table list of the associates of the Group which principally affected the results of the year or form a substantial portion of the net assets of the Group. To give details of other associates would, in the opinion of the Directors, result in particulars of excessive length.

(1) On 31 December 2012, the Company, PICC P&C and PICC Life in aggregate subscribed approximately 1.38 billion shares of Industrial Bank through a private placement. After the completion of the subscription, the Company, PICC P&C and PICC Life each holds 0.91%, 4.98% and 4.98% voting rights in Industrial Bank and the Group as a whole became the second largest shareholder of Industrial Bank.

On 19 April 2013, Mr. Li Liangwen, the President of PICC Life, was nominated by the Group to be the director nominee of Industrial Bank and attended the Industrial Bank board meeting as the representative of shareholder. Considering the shareholders' rights in Industrial Bank and comprehensive cooperation agreement signed on 8 May 2013 between the Group and the Industrial Bank, the Group holds the view that it has the ability to have significant influence over Industrial Bank since 8 May 2013 and therefore accounts for its equity interest in Industrial Bank as an associate using equity method in its consolidated financial statements.

When Industrial Bank became as associate, an amount of RMB559 million, which represents the excess of the Group's share of net fair value of the identifiable assets and liabilities over the costs of investments, was recognised in the share of profits and losses of associates in the consolidated income statement for the period.

(2) On 28 April 2013, a subsidiary of the Company entered into an agreement, pursuant to which the subsidiary agreed to subscribe for shares at an amount of RMB2,000 million to acquire the share capital of Aerospace Investment, representing an equity interest of 16.84% in Aerospace Investment. The subsidiary accounted for the interest in Aerospace Investment as an associate as the subsidiary has right to appoint representatives on the board of directors and the supervisory committee of Aerospace Investment.

Since Aerospace Investment became an associate of the Group in October 2013, the audited financial statements for the year ended 31 December 2013 were not available at the date of approving these consolidated financial statements. Given the estimated impact to these consolidated financial statements of the Group were considered insignificant, the Group did not share any profit or loss of this associate for the period from commencement of exercising significant influence to 31 December 2013.

(Amounts in millions of Renminbi, unless otherwise stated)

23. INVESTMENTS IN ASSOCIATES *(continued)*

(b) Particulars of the principal associates are as follows: *(continued)*

Summarised financial information in respect of each of the Group's material associates is set out below. The summarised financial information below represents amounts shown in the associate's financial statements prepared in accordance with the relevant accounting policies and financial regulations applicable to entities established in the PRC, and adjusted for any material differences from IFRS.

Industrial Bank

	30 September 2013
Total assets	3,633,650
Total liabilities	3,437,840
Attributable to:	
Equity holders of Industrial Bank	194,477
Non-controlling interests	1,333
Total equity	195,810

	Period from 8 May 2013 to 30 September 2013
Revenue	43,822
Profit attributable to:	
Equity holders of Industrial Bank	17,853
Non-controlling interests	118
Profit for the period	17,971
Other comprehensive expense attributable to:	
Equity holders of Industrial Bank	(1,542)
Non-controlling interests	–
Other comprehensive expense for the period	(1,542)
Total comprehensive income attributable to:	
Equity holders of Industrial Bank	16,311
Non-controlling interests	118
Total comprehensive income for the period	16,429
Dividends received from the associate during the period	787

(Amounts in millions of Renminbi, unless otherwise stated)

23. INVESTMENTS IN ASSOCIATES *(continued)*

(b) Particulars of the principal associates are as follows: *(continued)*

Industrial Bank (continued)

Reconciliation of the above summarised financial information to the carrying amount of the interest in Industrial Bank recognised in the consolidated financial statements:

	30 September 2013
Net assets of Industrial Bank attributable to Equity holders of Industrial Bank	194,477
Proportion of the Group's shareholders' interest in Industrial Bank	10.87%
The Group's shareholders' interest in net assets of Industrial Bank	21,140
Net fair value adjustment to the investee's identifiable assets and liabilities	1,351
Amortisation of intangible assets and financial instruments recognised in fair value adjustments	(19)
Carrying amount of the Group's interest in Industrial Bank	22,472

Industrial Bank is a listed company and its annual financial results cannot be made public prior to its results announcements, which usually are made in April. Therefore, as permitted by IAS 28 "Investments in Associates", the Group accounts for the share of profit of Industrial Bank from 8 May 2013 (the date on which the Group started exercising significant influence) to 30 September 2013, the date on which the most recent financial information is publicly available.

Estimates are made to arrive at revenue and net profit of Industrial Bank for the period from 8 May 2013 to 30 September 2013 according to its publicly available financial information.

(Amounts in millions of Renminbi, unless otherwise stated)

23. INVESTMENTS IN ASSOCIATES *(continued)*

(b) Particulars of the principal associates are as follows: *(continued)*

China Credit Trust

	31 December 2013	31 December 2012
Total assets	**13,012**	11,740
Total liabilities	**1,831**	1,643
Attributable to:		
Equity holders of China Credit Trust	**11,151**	10,027
Non-controlling interests	**30**	70
Total shareholders' equity	**11,181**	10,097

	2013	2012
Revenue	**2,679**	2,266
Profit attributable to:		
Equity holders of China Credit Trust	**1,939**	1,621
Non-controlling interests	**2**	(2)
Profit for the year	**1,941**	1,619
Other comprehensive (expense)/income attributable to:		
Equity holders of China Credit Trust	**(3)**	23
Non-controlling interests	**(1)**	–
Other comprehensive (expense)/income for the year	**(4)**	23
Total comprehensive income/(expense) attributable to:		
Equity holders of China Credit Trust	**1,936**	1,644
Non-controlling interests	**1**	(2)
Total comprehensive income for the year	**1,937**	1,642
Dividends received from the associate during the year	**283**	121

(Amounts in millions of Renminbi, unless otherwise stated)

23. INVESTMENTS IN ASSOCIATES *(continued)*

(b) Particulars of the principal associates are as follows: *(continued)*

China Credit Trust (continued)

Reconciliation of the above summarised financial information to the carrying amount of the interest in China Credit Trust recognised in the consolidated financial statements:

	31 December 2013	31 December 2012
Net assets of China Credit Trust	**11,151**	10,027
Proportion of the Group's shareholders' interest in China Credit Trust	**32.92%**	32.92%
Carrying amount of the Group's interest in China Credit Trust	**3,671**	3,301

Aggregate information of Aerospace and associates that are not individually material:

	2013	2012
The Group's share of loss	**(4)**	–
The Group's share of other comprehensive income	**–**	–
The Group's share of total comprehensive expense	**(4)**	–
Aggregate carrying amount of the Group's interests in these associates	**2,125**	60

The aggregate carrying amount of the Group's interests in associates include an amount of RMB2,000 million investment in Aerospace Investment as described in note 23 (b)(2).

(Amounts in millions of Renminbi, unless otherwise stated)

24. INVESTMENT PROPERTIES

The Group	**31 December 2013**	31 December 2012
Beginning of year	**8,450**	7,529
Additions	**85**	56
Transfers from property and equipment *(note 25)*	**1,542**	122
Transfer from prepaid land premium *(note 27)*	**51**	31
Gains on revaluation of properties upon transfer from property and equipment	**288**	190
Gains on revaluation of properties upon transfer from prepaid land premiums	**81**	45
Increase in fair value of investment properties *(note 6(c))*	**296**	915
Transfer to property and equipment *(note 25)*	**(358)**	(297)
Transfer to prepaid land premium *(note 27)*	**(189)**	(102)
Disposals	**(171)**	(39)
End of year	**10,075**	8,450

The Company	**31 December 2013**	31 December 2012
Beginning of year	**1,075**	–
Addition	**61**	101
Transfer from property and equipment *(note 25)*	**–**	566
Transfer from prepaid land premium *(note 27)*	**–**	87
Increase in fair value of investment properties	**–**	321
End of year	**1,136**	1,075

As at 31 December 2013, the fair values of the Group’s and the Company's investment properties were classified as Level 3.

The Group was still in the process of applying for title certificates for investment properties with a carrying value of RMB3,068 million as at 31 December 2013 (31 December 2012: RMB3,337 million). The Company had proper legal title to all of its investment properties.

The Group and the Company have not pledged any investment properties as at 31 December 2013 (31 December 2012: Nil).

24. INVESTMENT PROPERTIES *(continued)*

The Group's investment properties were revalued 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 Guan Fu Li Dao 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 combination of the following two approaches:

(1) 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

(2) 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 independent valuers usually determine the fair value of the investment properties as a weighted average of valuations produced by these two approaches according to their professional judgement. Therefore, these fair values are categorised as Level 3.

There has been no change in the valuation technique used from the prior year. In estimating the fair value of the properties, the highest and best use of the properties are their current use.

One of the key inputs used in valuing these investment properties was the capitalisation rate used, which range from 4.0% to 8.0%. A slight increase in the capitalisation rate used would result in a significant decrease in fair value measurement of investment properties, and vice versa.

These valuations are performed by the relevant independent valuers at 30 June and 31 December of each year. The finance department reviews the overall reasonableness of these valuations and reports the results of valuations to management of various subsidiaries.

The Group's investment properties mainly pertain to properties located in Mainland China and are held under medium-term lease.

(Amounts in millions of Renminbi, unless otherwise stated)

25. PROPERTY AND EQUIPMENT

The Group	Buildings	Office equipment, furniture and fixtures	Motor vehicles	Construction in progress	Total
COST					
As at 1 January 2013	19,520	6,487	1,775	3,168	30,950
Additions	867	642	222	1,678	3,409
Transfer of construction in progress	3,132	2	–	(3,134)	–
Transfer from investment property *(note 24)*	358	–	–	–	358
Transfer to investment property *(note 24)*	(1,610)	–	–	–	(1,610)
Disposals	(39)	(546)	(186)	(9)	(780)
As at 31 December 2013	22,228	6,585	1,811	1,703	32,327
ACCUMULATED DEPRECIATION					
As at 1 January 2013	4,286	2,976	879	–	8,141
Depreciation	637	1,119	275	–	2,031
Transfer to investment properties *(note 24)*	(68)	–	–	–	(68)
Disposals	(11)	(512)	(176)	–	(699)
As at 31 December 2013	4,844	3,583	978	–	9,405
IMPAIRMENT LOSSES					
As at 1 January 2013	831	–	–	36	867
Provision	1	–	–	–	1
As at 31 December 2013	832	–	–	36	868
NET CARRYING VALUES					
As at 31 December 2013	16,552	3,002	833	1,667	22,054
As at 1 January 2013	14,403	3,511	896	3,132	21,942

(Amounts in millions of Renminbi, unless otherwise stated)

25. PROPERTY AND EQUIPMENT *(continued)*

The Group	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	2,332	4,409
Transfer of construction in progress	189	1	–	(190)	–
Transfer from investment property *(note 24)*	297	–	–	–	297
Transfer to investment property *(note 24)*	(196)	–	–	–	(196)
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 24)*	(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
Provision	6	–	–	–	6
Disposals	(60)	–	–	–	(60)
As at 31 December 2012	831	–	–	36	867
NET CARRYING VALUES					
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

The Group was still in the process of applying for title certificates for its buildings with a carrying value of RMB1,429 million as at 31 December 2013 (31 December 2012: RMB1,667 million). The Directors are of the opinion that the Group has ownership of these buildings.

A buildings of a carrying amount of RMB3,533 million (31 December 2012: RMB3,571 million) have been pledged to a bank for a loan as at 31 December 2013.

(Amounts in millions of Renminbi, unless otherwise stated)

25. PROPERTY AND EQUIPMENT *(continued)*

The Company	Buildings	Office equipment, furniture and fixtures	Motor vehicles	Construction in progress	Total
COST					
As at 1 January 2013	108	170	21	–	299
Additions	–	63	1	–	64
Disposals	–	(1)	–	–	(1)
As at 31 December 2013	108	232	22	–	362
ACCUMULATED DEPRECIATION					
As at 1 January 2013	22	59	9	–	90
Additions	3	41	2	–	46
Disposals	–	(1)	–	–	(1)
As at 31 December 2013	25	99	11	–	135
NET CARRYING VALUES					
As at 31 December 2012	83	133	11	–	227
As at 1 January 2013	86	111	12	–	209

The Company	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 24)*	–	–	–	(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 VALUES					
As at 31 December 2012	86	111	12	–	209
As at 1 January 2012	87	110	13	549	759

The Company had proper legal title to its buildings and had not pledged any building for borrowings as at 31 Decembers 2013.

(Amounts in millions of Renminbi, unless otherwise stated)

26. INTANGIBLE ASSETS

The Group	Software 31 December 2013	31 December 2012
COST		
Beginning of the year	**672**	498
Additions	**226**	205
Disposals	**(4)**	(31)
End of the year	**894**	672
ACCUMULATED AMORTISATION		
Beginning of the year	**274**	216
Amortisation	**90**	65
Disposals	**(3)**	(7)
End of the year	**361**	274
NET CARRYING VALUES		
End of the year	**533**	398
Beginning of the year	**398**	282

The Company	Software 31 December 2013	31 December 2012
COST		
Beginning of the year	**23**	11
Additions	**27**	12
End of the year	**50**	23
ACCUMULATED AMORTISATION		
Beginning of the year	**4**	1
Amortisation	**8**	3
End of the year	**12**	4
NET CARRYING VALUES		
End of the year	**38**	19
Beginning of the year	**19**	10

(Amounts in millions of Renminbi, unless otherwise stated)

27. PREPAID LAND PREMIUMS

The Group	Prepaid land premiums 31 December 2013	 31 December 2012
COST		
Beginning of the year	**4,722**	4,548
Additions	**56**	121
Transfer to investment properties *(note 24)*	**(73)**	(44)
Transfer from investment properties *(note 24)*	**189**	102
Disposals	**(32)**	(5)
End of the year	**4,862**	4,722
ACCUMULATED AMORTISATION		
Beginning of the year	**965**	856
Amortisation	**126**	123
Transfer to investment properties *(note 24)*	**(22)**	(13)
Disposals	**(5)**	(1)
End of the year	**1,064**	965
IMPAIRMENT LOSSES		
Beginning of the year	**49**	41
Impairment	**–**	9
Disposals	**(5)**	(1)
End of the year	**44**	49
NET CARRYING VALUES		
End of the year	**3,754**	3,708
Beginning of the year	**3,708**	3,651

(Amounts in millions of Renminbi, unless otherwise stated)

27. PREPAID LAND PREMIUMS *(continued)*

The Company	Prepaid land premiums 31 December 2013	31 December 2012
COST		
Beginning of the year	**81**	177
Transfer to investment properties *(note 24)*	**–**	(95)
End of the year	**81**	82
ACCUMULATED AMORTISATION		
Beginning of the year	**7**	13
Amortisation	**2**	3
Transfer to investment properties *(note 24)*	**–**	(8)
End of the year	**9**	8
NET CARRYING VALUES		
End of the year	**72**	74
Beginning of the year	**74**	164

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.

28. DEFERRED TAX ASSETS AND LIABILITIES

The Group	31 December 2013	31 December 2012
Deferred tax assets	**1,545**	2,215
Deferred tax liabilities	**(435)**	(98)
	1,110	2,117

(Amounts in millions of Renminbi, unless otherwise stated)

28. DEFERRED TAX ASSETS AND LIABILITIES *(continued)*

The movements of deferred tax assets and liabilities of the Group during 2013 and 2012 are as follows:

	2013			
The Group	**As at 1 January**	**(Charged)/ credited to the income statement during the year**	**(Charged)/ credited to equity during the year**	**As at 31 December**
Provision for impairment losses	1,421	(272)	–	1,149
Employee benefits payable	817	186	–	1,003
Fair value adjustments to available-for-sale financial assets	1,230	–	(291)	939
Fair value adjustments to financial assets carried at fair value through profit or loss	21	(13)	–	8
Cash flow hedging	(19)	3	14	(2)
Fair value adjustments arising from investment properties	(1,315)	(74)	(92)	(1,481)
Insurance contract liabilities	(435)	82	–	(353)
Others	397	(550)	–	(153)
Net value	2,117	(638)	(369)	1,110

	2012			
The Group	As at 1 January	(Charged)/ credited to the income statement during the year	(Charged)/ credited to equity during the year	As at 31 December
Provision for impairment losses	1,252	169	–	1,421
Employee benefits payable	838	(21)	–	817
Fair value adjustments to available-for-sale financial assets *(Note)*	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)	3	25	(19)
Fair value adjustments arising from investment properties	(1,027)	(229)	(59)	(1,315)
Insurance contract liabilities	(450)	15	–	(435)
Others	236	161	–	397
Net value	2,790	(54)	(619)	2,117

Note: Income tax effect relating to available-for-sale assets for the year ended 31 December 2012 did not include an 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 included in the consolidated statement of comprehensive income.

(Amounts in millions of Renminbi, unless otherwise stated)

28. DEFERRED TAX ASSETS AND LIABILITIES *(continued)*

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 RMB14,516 million as at 31 December 2013 (31 December 2012: RMB7,508 million), of which deductible tax losses amounted to RMB7,856 million as at 31 December 2013 (31 December 2012: RMB4,726 million).

The expiry dates of unused tax losses are as follows:

The Group	31 December 2013	31 December 2012
Expiry dates:		
31 December 2013	–	980
31 December 2014	275	626
31 December 2015	784	784
31 December 2016	1,279	1,279
31 December 2017	1,057	1,057
31 December 2018	4,461	–
TOTAL	7,856	4,726

The Company	31 December 2013	31 December 2012
Deferred tax assets	162	142
Deferred tax liabilities	(162)	(142)
	–	–

(Amounts in millions of Renminbi, unless otherwise stated)

28. DEFERRED TAX ASSETS AND LIABILITIES *(continued)*

The movements of deferred tax assets and liabilities of the Company during 2013 and 2012 are as follows:

		2013		
The Company	**As at 1 January**	**Credited/ (charged) to the income statement during the year**	**Charged to equity during the year**	**As at 31 December**
Provision for impairment losses	**22**	**–**	**–**	**22**
Employee benefits payable	**28**	**19**	**–**	**47**
Fair value adjustments to available-for-sale financial assets	**(25)**	**–**	**(19)**	**(44)**
Fair value adjustments to financial assets carried at fair value through profit or loss	**–**	**(1)**	**–**	**(1)**
Fair value adjustments arising from investment properties	**(80)**	**–**	**–**	**(80)**
Others	**55**	**1**	**–**	**56**
Net value	**–**	**19**	**(19)**	**–**

		2012		
The Company	As at 1 January	Credited/ (charged) to the income statement during the year	Charged to equity during the year	As at 31 December
Provision for impairment losses	9	13	–	22
Employee benefits payable	–	28	–	28
Fair value adjustments to available-for-sale financial assets	(4)	–	(21)	(25)
Fair value adjustments arising from investment properties	–	(80)	–	(80)
Others	(5)	60	–	55
Net value	–	21	(21)	–

Unrecognised deductible tax losses arising from the Company, which do not have sufficient future taxable profits available for realisation, amounted to RMB3,665 million as at 31 December 2013 (31 December 2012: RMB3,125 million).

(Amounts in millions of Renminbi, unless otherwise stated)

28. DEFERRED TAX ASSETS AND LIABILITIES *(continued)*

The expiry dates of unused tax losses are as follows:

The Company	31 December 2013	31 December 2012
Expiry dates:		
31 December 2014	275	626
31 December 2015	784	784
31 December 2016	760	760
31 December 2017	955	955
31 December 2018	891	–
TOTAL	3,665	3,125

29. OTHER ASSETS

Carrying values of other assets are as follows:

The Group	*Note*	31 December 2013	31 December 2012
Loans and debts	(a)	73,542	39,110
Other receivables	(b)	1,241	1,081
Amount due from MOF	(c)	707	707
Interests receivable		9,526	8,109
Dividends receivable		296	294
Policy loans		6,203	5,999
Others		9,001	7,057
TOTAL		100,516	62,357

Policy loans are secured by cash values of the relevant insurance policies and carry interest rate at 6.00%-6.46% (2012: 6:00%-6.71%) per annum.

The Company	*Note*	31 December 2013	31 December 2012
Other receivables	(b)	1,174	612
Amount due from the MOF	(c)	707	707
Interests receivable		148	3
Dividends receivable		296	294
Others		89	37
TOTAL		2,414	1,653

(Amounts in millions of Renminbi, unless otherwise stated)

29. OTHER ASSETS *(continued)*

(a) Loans and debts

	31 December 2013	31 December 2012
Subordinated debts held	**460**	1,200
Long-term debt investment scheme	**73,082**	37,910
TOTAL	**73,542**	39,110

The original terms of subordinated debts are 10 years with a redemption right exercisable by the issuer at the end of fifth year after its issue. The interest rates of these debts are 4.2%-5.8% (2012: 4.2%-5.8%) per annum as at 31 December 2013.

Long-term debt investment schemes offer either fixed or variable interests. The interest rates of these schemes are 4.75%-7.5% per annum as at 31 December 2013.

(b) Other receivables

The Group	31 December 2013	31 December 2012
Other receivables	**124**	180
Prepayments and deposits	**517**	901
Securities settlement account	**600**	–
TOTAL	**1,241**	1,081

On 1 April 2012, the Company signed an agreement with China Credit Trust to transfer right on a receivable from a subsidiary to a trust scheme held in the custody of China Credit Trust. Details are described in note 18.

(c) The balance included an amount of RMB707 million as at 31 December 2013 (31 December 2012: 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 39(c)(3).

(Amounts in millions of Renminbi, unless otherwise stated)

30. PLEDGED ASSETS AND RESTRICTED DEPOSITS

(a) Deposits with restricted rights or ownership

As at 31 December 2013, term deposits amounting to RMB1,005 million (31 December 2012: RMB864 million) was subject to various restrictions, in particular for the Group's involvement in agricultural insurance and satellite launch risk insurance against non-commercial use satellites.

(b) Pledged real estate property of No. 88 Development Company

No. 88 Development Company pledged its land and building located on No. 88 West Chang'an Avenue with a carrying amount of RMB3,533 million as at 31 December 2013 (31 December 2012: RMB3,571 million) to China Construction Bank with a loan balance of RMB496 million as at 31 December 2013 (31 December 2012: RMB362 million).

(c) Securities pledged for repurchase transactions

As described in note 31 to these financial statements, the Group entered into a number of arrangements to sell certain bond securities with commitments to repurchasing in the future. These bond securities are continued to be recognised in these consolidated financial statements and classified as held-for-trading, available-for-sale, or held-to-maturity securities, but they are in effect pledged as collaterals for these transactions. As at 31 December 2013, the carrying amount and fair values of the Group's bonds amounted to RMB52,483 million and RMB49,749 million, respectively. For the Company, the carrying amount and fair values of the securities sold under agreement to repurchase amounted to RMB1,964 million and RMB1,964 million, respectively.

31. SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

The Group	31 December 2013	31 December 2012
Transactions by market places:		
Stock exchange	20,459	4,954
Inter-bank market	23,989	66,336
TOTAL	44,448	71,290

The Company	31 December 2013	31 December 2012
Transactions by market places:		
Inter-bank market	1,955	–

(Amounts in millions of Renminbi, unless otherwise stated)

31. SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE *(continued)*

Up to date of the issue of these consolidated financial statements, the Group and the Company had already redeemed all the disclosed securities sold under agreements of repurchase.

Debt securities are pledged for these transactions and details are set out in note 30(c) to these consolidated financial statements.

32. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

The Group	**31 December 2013**	31 December 2012
Short-term borrowings within one year	**5**	–
Long-term borrowings		
– Due more than 5 years	**496**	362
TOTAL	**501**	362

Maturity profile of bank borrowings is disclosed in note 41(b)(2).

These amounts were borrowed by No. 88 Development Company and details of the assets pledged for these borrowings are disclosed in note 30 (b).

33. SUBORDINATED DEBTS

The Group	**31 December 2013**	31 December 2012
Beginning of year	**34,855**	34,670
Additions	**21,948**	–
Effective interest	**92**	185
Redemption	**(10,058)**	–
End of year	**46,837**	34,855

The Company	**31 December 2013**	31 December 2012
Beginning of year	**9,708**	9,708
Additions	**15,948**	–
Effective interest	**8**	–
Redemption	**(7,808)**	–
End of year	**17,856**	9,708

(Amounts in millions of Renminbi, unless otherwise stated)

33. SUBORDINATED DEBTS *(continued)*

Details of the Group's subordinated debts as at 31 December 2013 and 31 December 2012 are as follows:

				31 December 2013		31 December 2012	
Issuer	Issue date	Term	Interest rate	Principal	Carrying amount	Principal	Carrying amount
The Company	2-April-2008	10 years	Year 1-5: 6.05%; year 6-10: 8.85%	–	–	7,808	7,808
The Company	9-January-2009	10 years	Year 1-5: 3.99%; year 6-10: 6.99%	1,900	1,900	1,900	1,900
The Company	17-June-2013	10 years	Year 1-5: 4.95%; year 6-10: 6.95%	16,000	15,956	–	–
PICC P&C	19-December-2006	10 years	Year 1-5: 4.08%; year 6-10: 6.08%	3,000	3,091	3,000	3,118
PICC P&C	28-September-2009	10 years	Year 1-5: 4.30%; year 6-10: 6.30%	5,000	5,187	5,000	5,134
PICC P&C	30-June-2010	10 years	Year 1-5: 4.60%; year 6-10: 6.60%	6,000	6,182	6,000	6,121
PICC P&C	3-June-2011	10 years	Year 1-5: 5.38%; year 6-10: 7.38%	5,000	5,102	5,000	5,054
PICC Life	23-September-2008	10 years	Year 1-5: 5.66%; year 6-10: 7.66%	–	–	2,250	2,337
PICC Life	19-July-2010	10 years	Year 1-5: 4.60%; year 6-10: 6.60%	2,500	2,580	2,500	2,555
PICC Life	23-December-2013	10 years	Year 1-5: 6.19%; year 6-10: 8.19%	6,000	6,000	–	–
PICC Health	20-August-2009	10 years	Year 1-5: 4.38%; year 6-10: 6.88%	800	839	800	828
Total				46,200	46,837	34,258	34,855

With proper notice to the counterparties, the Group has an option to redeem the subordinated debts at par values at the end of the fifth year from the date of issue.

34. INSURANCE CONTRACT LIABILITIES

	31 December 2013		
The Group	**Insurance contract liabilities**	**Reinsurers' share**	**Net**
Long-term life insurance contracts (a)	278,412	68	278,344
Short-term life insurance contracts (b)			
– Claim reserves	3,310	1,041	2,269
– Unearned premium reserves	1,392	188	1,204
Non-life insurance contracts (c)			
– Claim reserves	92,051	14,913	77,138
– Unearned premium reserves	86,611	11,012	75,599
Total insurance contract liabilities	461,776	27,222	434,554

(Amounts in millions of Renminbi, unless otherwise stated)

34. INSURANCE CONTRACT LIABILITIES *(continued)*

	31 December 2012		
The Group	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

(a) Long-term life insurance contracts

The Group	Insurance contract liabilities	Reinsurers' share	Net
At 1 January 2012	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
Additions	79,804	(8)	79,812
Payments	(6,201)	5	(6,206)
Surrenders	(22,397)	–	(22,397)
At 31 December 2013	278,412	68	278,344

(Amounts in millions of Renminbi, unless otherwise stated)

34. INSURANCE CONTRACT LIABILITIES *(continued)*

(b) Short-term life insurance contracts

(1) Claim reserve

The Group	Insurance contract liabilities	Reinsurers' share	Net
At 1 January 2012	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
Claims incurred	5,924	2,114	3,810
Claims paid	(5,991)	(2,365)	(3,626)
At 31 December 2013	3,310	1,041	2,269

(2) Unearned premiums reserves

The Group	Insurance contract liabilities	Reinsurers' share	Net
At 1 January 2012	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
Premiums written	8,076	2,229	5,847
Premiums earned	(7,946)	(2,220)	(5,726)
At 31 December 2013	1,392	188	1,204

(Amounts in millions of Renminbi, unless otherwise stated)

34. INSURANCE CONTRACT LIABILITIES *(continued)*

(c) Non-life insurance contracts

(1) Claim reserve

The Group	Insurance contract liabilities	Reinsurers' share	Net
At 1 January 2012	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
Claims incurred	141,216	19,860	121,356
Claims paid	(133,244)	(17,997)	(115,247)
At 31 December 2013	92,051	14,913	77,138

(2) Unearned premium reserves

The Group	Insurance contract liabilities	Reinsurers' share	Net
At 1 January 2012	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
Premiums written	223,622	31,311	192,311
Premiums earned	(212,664)	(29,582)	(183,082)
At 31 December 2013	86,611	11,012	75,599

(Amounts in millions of Renminbi, unless otherwise stated)

35. INVESTMENT CONTRACT LIABILITIES FOR POLICYHOLDERS

The Group	31 December 2013	31 December 2012
Interest-bearing deposits	39,747	48,390
Non-interest-bearing deposits	1,893	1,922
Total	41,640	50,312

The movements in investment contract liabilities for policyholders are as follows:

The Group	31 December 2013	31 December 2012
Beginning of year	50,312	49,156
Deposits received after deducting fees	18,152	19,670
Deposits withdrawn	(28,765)	(20,442)
Interest credited *(note 9)*	1,941	1,928
End of year	41,640	50,312

36. PENSION BENEFIT OBLIGATION

The Group is committed to certain pension and medical benefits of employees who retired on or prior to 31 July 2003. The amounts of these pension and medical benefits are paid monthly according a policy agreed with these employees and number of years of services of these employees with the Group. The Group also offered an early retirement program to certain employees for its group reorganisation in 2003. For employees who joined this program, they are entitled various periodic benefits up to their normal retirement ages. The beneficiaries of these pension benefits are not in active employment with the Group and these benefits are fully vested. There is no plan asset for these pension benefits.

(a) The movements in the present value of early retirement and retirement benefits are shown below:

The Group and the Company	31 December 2013	31 December 2012
Beginning of year	2,952	3,056
Interest cost on benefit obligation *(note 9)*	107	108
Actuarial gains arising from changes in financial assumptions	(260)	(32)
Actuarial losses arising from experience adjustments	73	84
Benefits paid	(258)	(264)
End of year	2,614	2,952

(Amounts in millions of Renminbi, unless otherwise stated)

36. PENSION BENEFIT OBLIGATION *(continued)*

(a) The movements in the present value of early retirement and retirement benefits are shown below: *(continued)*

The plans typically expose the Group to interest rate risk and longevity risk.

- Interest rate risk: a decrease in the bond interest rate will increase the plan liability.

- Longevity risk: the present value of the defined benefit plan liability is calculated by reference to the best estimate of the mortality of plan participants both during and after their employment. An increase in the life expectancy of the plan participants will increase the plan's liability.

In aggregate, actuarial gains of RMB187 million (2012: actuarial loss of RMB52 million) were credited to other comprehensive income for the current year.

Mercer Consulting (China) Ltd. was engaged by the Group to measure the retirement benefit plans at the end of each annual reporting period.

(b) The discount rates and the principal actuarial assumptions for the above obligations are as follows:

The Group and the Company	**31 December 2013**	31 December 2012
Discount rates:		
– Early retirement benefits	**4.40%**	3.20%
– Retirement benefits	**4.60%**	3.60%
– Supplementary medical benefits	**4.90%**	4.00%
Average annual benefit growth rate:		
– Early retirement benefits	**2.50%**	2.50%
– Medical expenses	**8.00%**	8.00%

Discount rates are set to be the government bond yields with similar maturities and vary for different types of benefits. The durations of early retirement benefits, retirement benefits and supplementary medical benefits are 3.2, 8.4 and 12.3 as at 31 December 2013.

The maturity of these benefits, in terms of undiscounted cash flows, is presented in note 41(b)(2).

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 39(c)(3).

(Amounts in millions of Renminbi, unless otherwise stated)

36. PENSION BENEFIT OBLIGATION *(continued)*

(c) Sensitivity analysis

Significant actuarial assumptions for the determination of the defined obligation are discount rate and benefit growth rate. The sensitivity analyses below have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

	Change in assumptions	Effect on the pension benefit obligation
Discount rate	+50bp	(133)
Discount rate	-50bp	133
Average annual benefit growth rate	+50bp	132
Average annual benefit growth rate	-50bp	(132)

37. OTHER LIABILITIES

The Group	*Notes*	31 December 2013	31 December 2012
Claims payable		**4,223**	2,544
Premium received in advance		**9,989**	8,524
Salaries and welfare payable		**6,206**	5,374
Handling charges and commission payable		**3,237**	3,194
Due to reinsurers		**19,543**	17,833
Business tax and other tax payable		**4,133**	3,572
Insurance security fund		**716**	620
Interests payable	(a)	**939**	896
Others		**5,408**	5,744
TOTAL		**54,394**	48,301

The Company	31 December 2013	31 December 2012
Salaries and welfare payable	**241**	165
Interests payable	**498**	420
Other payables	**1,382**	2,262
Others	**156**	163
TOTAL	**2,277**	3,010

(Amounts in millions of Renminbi, unless otherwise stated)

37. OTHER LIABILITIES *(continued)*

Included in the balances of the Group and the Company was an amount of RMB679 million in relation to transfer of assets that not qualified for derecognition. For details, please refer to notes 18 and 29.

(a) Interests payable

The Group	31 December 2013	31 December 2012
Subordinated debts	**926**	879
Securities sold under agreements to repurchase	**10**	17
Others	**3**	–
TOTAL	**939**	896

38. SHARE CAPITAL

The Group and the Company	31 December 2013	31 December 2012
Issued and fully paid ordinary shares of RMB 1 each (in million shares)		
Domestic shares	**33,698**	33,698
H shares	**8,726**	8,726
	42,424	42,424
Share capital (in RMB million)		
Domestic shares	**33,698**	33,698
H shares	**8,726**	8,726
	42,424	42,424

The Company was converted into a joint stock company in 2009 and as part of the conversion, its 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, certain assets of the Company was revalued and revaluation reserves of RMB18,330 million were transferred to the share capital after an elimination of accumulated losses of RMB3,230 million.

38. SHARE CAPITAL *(continued)*

In 2011, the Company received a capital injection of 10,000 million from National Council for Social Security Fund and the amount was converted into 3,891,050,583 shares at a price of RMB2.57 per share, resulting in an increase in the share capital and share premiums by RMB 3,891 million and RMB 6,109 million, respectively.

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. 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.

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.

39. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity of the consolidated 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) Surplus reserve fund

In accordance with the Company Law and the Articles of Association, the Company is required to make appropriations to the statutory surplus reserve based on their respect year-end profit (after offsetting any prior years' losses) as determined based on applicable financial regulations in the PRC in their annual statutory financial statements. When the balance of such reserve fund reaches 50% of the capital, any further appropriation is optional. The Company may also make appropriations to the discretionary surplus reserve provided that the appropriation is approved by a resolution of the shareholders. Subject to resolutions passed in general meetings, the statutory and discretionary surplus reserves can be transferred to the share capital. The balance of the statutory surplus reserve fund after transfers to the share capital should not be less than 25% of the share capital.

(Amounts in millions of Renminbi, unless otherwise stated)

39. RESERVES *(continued)*

(c) Principal items of other reserves were summarised as follows:

The Group	31 December 2013	31 December 2012
Transactions with non-controlling interests (1)	**106**	206
Transfer to share capital (2)	**(17,942)**	(17,942)
Compensation for post-employment benefit obligation (3) *(note 36)*	**2,847**	2,847
TOTAL	**(14,989)**	(14,889)

(1) The amount represents certain transactions with non-controlling interests, including direct acquisition of ownership interests in subsidiary from non-controlling interests, or deemed acquisitions or disposals of ownership interests in subsidiaries without loss of control. The principal reason for movement was set out in note 22(c) to these consolidated financial statements.

(2) As at 30 June 2009, the Company obtained approval from MOF on conversion into a joint stock company. During the process, certain assets were revalued and the corresponding revaluation surplus was transferred to the share capital. On consolidation, these revaluations were reversed, and created a negative balance.

(3) In 2009, the Company recognised an amount of RMB2,847 million recoverable from the MOF as compensation for the Company's assumption of post-employment benefit obligation. The amount was recognised as a special capital contribution from the MOF and was credited to other reserves.

(d) The movements in reserves and retained profits of the Company are set out below:

The Company	Available-for-sale investment revaluation reserve	Share premium account	Surplus reserve fund	Other reserves	Retained profits	Total
At 1 January 2013	77	19,925	317	11,811	3,244	35,374
Profit for the year	–	–	–	–	2,619	2,619
Other comprehensive income	55	–	–	–	187	242
Appropriations to surplus reserve fund	–	–	262	–	(262)	–
Dividends paid to shareholders	–	–	–	–	(163)	(163)
At 31 December 2013	132	19,925	579	11,811	5,625	38,072

(Amounts in millions of Renminbi, unless otherwise stated)

39. RESERVES *(continued)*

(d) The movements in reserves and retained profits of the Company are set out below: *(continued)*

	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
Profit for the year	–	–	–	–	1,812	1,812
Other comprehensive income	65	–	–	(3)	(52)	10
Appropriations to surplus reserve fund	–	–	181	–	(181)	–
Issue of shares	–	13,821	–	–	–	13,821
At 31 December 2012	77	19,925	317	11,811	3,244	35,374

40. 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.

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 adjust 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 makes reinsurance arrangements to manage its regulatory capital requirements.

The Group has had no significant changes in its policies and processes in respect of its capital structure during the current year.

(Amounts in millions of Renminbi, unless otherwise stated)

40. RISK MANAGEMENT FRAMEWORK *(continued)*

(b) Capital management approach *(continued)*

The solvency margin ratios of the Group and its principal subsidiaries are listed below:

	31 December 2013			31 December 2012		
(in RMB million)	Regulatory capital held	Minimum regulatory capital	Solvency margin ratio	Regulatory capital held	Minimum regulatory capital	Solvency margin ratio
PICC P&C	52,026	28,867	180%	43,260	24,771	175%
PICC Life	24,992	12,386	202%	13,955	10,773	130%
PICC Health	1,575	1,356	116%	2,050	1,263	162%

The solvency margin ratio, which is calculated based on relevant regulations promulgated by the insurance regulator in China, 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.

41. 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.

(Amounts in millions of Renminbi, unless otherwise stated)

41. RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(a) Insurance risk *(continued)*

(1) Insurance risk types (continued)

When the underwriting risks principally are mortality risks, epidemics, widespread changes in lifestyle and natural disasters may result in earlier or more claims than expected; when the underwriting risks principally are longevity risks, continued improvement in medical science and social conditions that would improve longevity any may result in losses to annuity or similar contracts. For contracts with discretionary participation features, a significant portion of these insurance risks are shared with the insured parties.

Insurance risk of life insurance contracts 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.

For non-life insurance contracts, claims are often affected by many factors such as climate changes, natural disasters, calamities, and terrorist activities.

Gross and net premiums written to certain extent represent the risk exposures of the Group before and after reinsurance and the information is presented in note 5 to these consolidated financial statements.

(2) Insurance risk concentration

Non-life 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).

The Group's concentration of non-life insurance risk before and after reinsurance, measured by geographical turnover and net written premiums of non-life insurance, is as follows:

	2013		2012	
	Gross	**Net**	Gross	Net
Coastal and developed provinces/cities (including Hong Kong)	**99,486**	**80,259**	85,070	71,100
North-eastern China	**15,323**	**13,386**	13,619	11,466
Northern China	**32,388**	**29,861**	29,694	25,941
Central China	**27,895**	**25,161**	23,549	20,247
Western China	**48,530**	**43,644**	41,654	35,860
Total premiums written from non-life insurance contracts	**223,622**	**192,311**	193,586	164,614

41. RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(a) Insurance risk *(continued)*

(2) Insurance risk concentration (continued)

For life and health insurance contracts, their insurance risks usually do not vary significantly in relation to the geographical locations of the insured and therefore geographical concentration by locations are not presented.

(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 commissions, sliding commissions and loss participation limits. 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 the its direct obligations to its policyholders and thus a credit exposure exists with respect of 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.

(Amounts in millions of Renminbi, unless otherwise stated)

41. 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:

	Change in assumptions	Pre-tax impact on profit and equity 2013	2012
Discount rate	+50bp	**1,614**	1,358
Discount rate	-50bp	**(1,739)**	(1,436)
Mortality/morbidity	10%	**(88)**	(72)
Mortality/morbidity	-10%	**90**	74
Lapse and surrenders rate	25%	**204**	150
Lapse and surrenders rate	-25%	**(225)**	(165)
Expenses	110%	**(93)**	(81)
Expenses	90%	**93**	81

Long-term life and long-term health insurance contracts held by PICC Health:

	Change in assumptions	Pre-tax impact on profit and equity 2013	2012
Discount rate	+25bp	**19**	9
Discount rate	-25bp	**(21)**	(9)
Mortality/morbidity	10%	**(7)**	(3)
Mortality/morbidity	-10%	**6**	3
Lapse and surrenders rate	10%	**3**	(1)
Lapse and surrenders rate	-10%	**(4)**	1
Expenses	110%	**1**	2
Expenses	90%	**(1)**	(2)

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.

41. 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 claim reserve, 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 claim reserve is not quantifiable with certainty at the end of 2013 and 2012.

If the average cost per claim or the number of claims changes, the claim reserves will change proportionately. When the other assumptions remain unchanged, if the future average cost per claim increases by 5%, the net claim reserves of the Group will increase by approximately RMB 3,970 million as at 31 December 2013 (31 December 2012: RMB3,656 million).

As the claims of life insurance are usually settled in 1 year, an analysis of the development of claims was not reflected in the table below.

(Amounts in millions of Renminbi, unless otherwise stated)

41. 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 non-life claims over a period of time on a gross basis:

	Accident year-gross					
	Year ended 31 December					
	2009	2010	2011	2012	**2013**	Total
Estimated cumulative claims:						
At the end of current year	73,661	86,419	98,932	113,746	**138,469**	511,227
One year later	74,581	85,537	98,061	113,822	**–**	372,001
Two years later	74,190	85,241	97,132	–	**–**	256,563
Three years later	73,953	83,796	–	–	**–**	157,749
Four years later	73,936	–	–	–	**–**	73,936
Estimated cumulative claims	73,936	83,796	97,132	113,822	**138,469**	507,155
Cumulative claims paid	(72,137)	(76,391)	(85,040)	(101,451)	**(87,376)**	(422,395)
Subtotal as at 31 December 2013						84,760
Unpaid claims prior to 2009, unallocated loss adjustment expenses, discount and risk margin						7,291
Non-life unpaid claim reserves, gross						92,051

(Amounts in millions of Renminbi, unless otherwise stated)

41. 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 non-life claims over a period of time on a net basis:

	Accident year-net					
	Year ended 31 December					
	2009	2010	2011	2012	**2013**	Total
Estimated cumulative claims:						
At the end of current year	58,536	77,623	83,966	95,126	**120,250**	435,501
One year later	59,137	77,118	83,307	95,343	–	314,905
Two years later	59,594	76,667	82,656	–	–	218,917
Three years later	59,293	75,294	–	–	–	134,587
Four years later	58,880	–	–	–	–	58,880
Estimated cumulative claims	58,880	75,294	82,656	95,343	**120,250**	432,423
Cumulative claims paid	(57,343)	(68,792)	(72,873)	(85,754)	**(77,906)**	(362,668)
Subtotal as at 31 December 2013						69,755
Unpaid claims prior to 2009, unallocated loss adjustment expenses, discount and risk margin						7,383
Non-life unpaid claim reserves, net						77,138

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.

41. 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, subordinated debts and debt investment schemes held, interests receivable, policy loans, other receivables, investments in debt securities, 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 with state-owned commercial banks. Therefore, the Group is exposed to relatively low credit risks for these financial assets.

The Group evaluates its credit risks in investments by both qualitative and quantitative analysis, including studying the relevant industry, enterprise management, financial factors, company prospects, as well as the use of internal credit models. The Group mitigates credit risk by using a variety of methods including impositions of aggregate counterparty exposure limits and increasing the diversification of fixed income investment portfolios.

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.

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.

(Amounts in millions of Renminbi, unless otherwise stated)

41. 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:

The Group	31 December 2013	31 December 2012
Cash and cash equivalents	46,601	73,694
Derivative financial assets	16	73
Debt securities	243,756	217,369
Insurance receivables	26,762	23,305
Term deposits	137,607	120,115
Restricted statutory deposits	8,992	7,880
Other financial assets	98,293	59,474
Total credit risk exposure	562,027	501,910

The Company	31 December 2013	31 December 2012
Cash and cash equivalents	2,876	22,325
Debt securities	4,512	–
Term deposits	5,970	115
Other financial assets	2,412	1,651
Total credit risk exposure	15,770	24,091

(Amounts in millions of Renminbi, unless otherwise stated)

41. RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(b) Financial risks *(continued)*

(1) Credit risk (continued)

Ageing analysis of financial assets

	As at 31 December 2013						
		Past due but not impaired financial assets					
The Group	Not past due	Within 30 days	31 to 90 days	Over 90 days	Subtotal	Past due and impaired	Total
Cash and cash equivalents	46,601	–	–	–	–	–	46,601
Derivative financial assets	16	–	–	–	–	–	16
Debt securities	243,756	–	–	–	–	–	243,756
Insurance receivables	20,934	1,148	2,629	952	4,729	3,412	29,075
Term deposits	137,607	–	–	–	–	–	137,607
Restricted statutory deposits	8,992	–	–	–	–	–	8,992
Other financial assets	98,289	3	1	–	4	1,191	99,484
Total	556,195	1,151	2,630	952	4,733	4,603	565,531
Less: impairment losses	–	–	–	–	–	(3,504)	(3,504)
Net	556,195	1,151	2,630	952	4,733	1,099	562,027

	As at 31 December 2012						
		Past due but not impaired financial assets					
The Group	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
Insurance receivables	13,906	908	4,952	2,010	7,870	3,943	25,719
Term deposits	120,115	–	–	–	–	–	120,115
Restricted statutory deposits	7,880	–	–	–	–	–	7,880
Other financial assets	59,467	3	3	1	7	1,237	60,711
Total	492,504	911	4,955	2,011	7,877	5,180	505,561
Less: impairment losses	–	–	–	–	–	(3,651)	(3,651)
Net	492,504	911	4,955	2,011	7,877	1,529	501,910

(Amounts in millions of Renminbi, unless otherwise stated)

41. RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(b) Financial risks *(continued)*

(1) Credit risk (continued)

Ageing analysis of financial assets (continued)

	As at 31 December 2013						
		Past due but not impaired financial assets					
The Company	Not past due	Within 30 days	31 to 90 days	Over 90 days	Subtotal	Past due and impaired	Total
Cash and cash equivalents	2,876	–	–	–	–	–	2,876
Debt securities	4,512	–	–	–	–	–	4,512
Term deposits	5,970	–	–	–	–	–	5,970
Other financial assets	2,412	–	–	–	–	90	2,502
Total	15,770	–	–	–	–	90	15,860
Less: impairment losses	–	–	–	–	–	(90)	(90)
Net	15,770	–	–	–	–	–	15,770

	As at 31 December 2012						
		Past due but not impaired financial assets					
The Company	Not past due	Within 30 days	31 to 90 days	Over 90 days	Subtotal	Past due and impaired	Total
Cash and cash equivalents	22,325	–	–	–	–	–	22,325
Term deposits	115	–	–	–	–	–	115
Other financial assets	1,651	–	–	–	–	90	1,741
Total	24,091	–	–	–	–	90	24,181
Less: impairment losses	–	–	–	–	–	(90)	(90)
Net	24,091	–	–	–	–	–	24,091

41. 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 6 % of total assets as at 31 December 2013 (31 December 2012: 11%).

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 according to statistical techniques and past experience.

The table below summarises the remaining contractual maturity profile of the financial assets and liabilities and pension benefit obligations of the Group based on undiscounted contractual cash flows.

(Amounts in millions of Renminbi, unless otherwise stated)

41. RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(b) Financial risks *(continued)*

(2) Liquidity risk (continued)

	As at 31 December 2013						
The Group	**Past due/ repayable on demand**	**Within 3 month**	**3 to 12 months**	**1 to 5 years**	**More than 5 years**	**No maturity date**	**Total**
Cash and cash equivalents	34,534	12,181	–	–	–	–	46,715
Derivative financial assets	–	–	4	7	–	–	11
Debt securities	–	1,898	19,696	101,692	253,888	–	377,174
Equity securities	–	–	–	25,300	1,500	70,812	97,612
Insurance receivables	6,285	16,397	1,582	2,479	19	–	26,762
Term deposits	–	7,873	7,767	133,898	8,818	–	158,356
Restricted statutory deposits	–	13	73	10,170	–	–	10,256
Other financial assets	3,941	13,653	13,830	40,311	50,243	–	121,978
Total financial assets	44,760	52,015	42,952	313,857	314,468	70,812	838,864
Securities sold under agreements to repurchase	–	44,476	–	–	–	–	44,476
Derivative financial liabilities	–	2	2	(1)	–	–	3
Due to banks and other financial institutions	36	13	25	478	216	–	768
Subordinated debts	–	7	1,413	13,380	53,949	–	68,749
Investment contract liabilities for policyholders	35,141	792	1,523	632	3,591	–	41,679
Policyholder dividends payable	7,806	–	–	–	–	–	7,806
Pension benefit obligation	–	51	154	788	3,595	–	4,588
Other financial liabilities	9,358	24,905	4,666	1,183	126	–	40,238
Total financial liabilities	52,341	70,246	7,783	16,460	61,477	–	208,307

(Amounts in millions of Renminbi, unless otherwise stated)

41. RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(b) Financial risks *(continued)*

(2) Liquidity risk (continued)

	As at 31 December 2012						
The Group	Past due/ repayable on demand	Within 3 month	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	–	–	–	24,621	–	95,108	119,729
Insurance receivables	9,143	10,078	1,060	2,997	27	–	23,305
Term deposits	–	2,569	7,991	130,827	1,124	–	142,511
Restricted statutory deposits	–	931	240	7,436	–	–	8,607
Other financial assets	2,544	7,126	8,294	24,796	30,046	13	72,819
Total financial assets	63,495	43,891	34,548	268,125	264,229	95,121	769,409
Securities sold under agreements to repurchase	–	71,326	–	–	–	–	71,326
Derivative financial liabilities	–	–	2	1	–	–	3
Due to banks and other financial institutions	362	–	–	–	–	–	362
Subordinated debts	–	3	1,244	11,765	36,223	–	49,235
Investment contract liabilities for policyholders	44,841	1,316	1,366	536	2,264	–	50,323
Policyholder dividends payable	5,486	–	–	–	–	–	5,486
Pension benefit obligation	–	52	155	792	3,764	–	4,763
Other financial liabilities	9,130	20,712	5,596	645	93	–	36,176
Total financial liabilities	59,819	93,409	8,363	13,739	42,344	–	217,674

(Amounts in millions of Renminbi, unless otherwise stated)

41. RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(b) Financial risks *(continued)*

(2) Liquidity risk (continued)

	As at 31 December 2013						
The Company	**Past due/ repayable on demand**	**Within 3 month**	**3 to 12 months**	**1 to 5 years**	**More than 5 years**	**No maturity date**	**Total**
Cash and cash equivalents	701	2,195	–	–	–	–	2,896
Debt securities	–	41	3,598	597	862	–	5,098
Equity securities	–	–	–	–	–	9,834	9,834
Term deposits	–	5,870	118	–	–	–	5,988
Other financial assets	2,264	133	15	–	–	–	2,412
Total financial assets	2,965	8,239	3,731	597	862	9,834	26,228
Securities sold under agreements to repurchase	–	1,956	–	–	–	–	1,956
Subordinated debts	–	7	365	3,699	23,593	–	27,664
Pension benefit obligation	–	51	154	788	3,595	–	4,588
Other financial liabilities	1,500	312	427	–	–	–	2,239
Total financial liabilities	1,500	2,326	946	4,487	27,188	–	36,447

	As at 31 December 2012						
The Company	Past due/ repayable on demand	Within 3 month	3 to 12 months	1 to 5 years	More than 5 years	No maturity date	Total
Cash and cash equivalents	3,651	18,674	–	–	–	–	22,325
Equity securities	–	–	–	–	–	2,686	2,686
Term deposits	–	–	117	–	–	–	117
Other financial assets	1,648	–	3	–	–	–	1,651
Total financial assets	5,299	18,674	120	–	–	2,686	26,779
Subordinated debts	–	3	125	2,988	10,602	–	13,718
Pension benefit obligation	–	52	155	792	3,764	–	4,763
Other financial liabilities	2,382	237	348	–	–	–	2,967
Total financial liabilities	2,382	292	628	3,780	14,366	–	21,448

As set out in note 46(a) to these consolidated financial statements, subsequent to the balance sheet date, on 13 January 2014, the Company and the Group early redeemed subordinated debts of RMB1,976 million. The maturity profile presented above, however, assumes that the Company and the Group will repay the corresponding debts in 2019 according to their contractual maturities.

41. 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 flows 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. The Group's principal operations and transactions are conducted in RMB. However, the Group is also exposed to foreign exchange risk respect to the (i) United States dollar ("USD") because certain non-life insurance contracts are denominated in USD; and (ii) Hong Kong dollar ("HKD") because proceeds from initial public offerings in 2012 are denominated in Hong Kong dollars. During the year, the Group converted HKD 22,000 million into RMB to reduce its foreign exchange risk.

(Amounts in millions of Renminbi, unless otherwise stated)

41. RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(b) Financial risks *(continued)*

(3) Market risk (continued)

Foreign currency risk (continued)

The table below summarises the Group's assets and liabilities by major currency, expressed in the RMB equivalent:

31 December 2013	RMB	HKD	USD	Others	Total
Cash and cash equivalents	42,064	1,351	3,153	39	46,607
Derivative financial assets	16	–	–	–	16
Debt securities	241,968	5	1,783	–	243,756
Equity securities	95,233	2,264	115	–	97,612
Insurance receivables	21,054	45	5,636	27	26,762
Term deposits	132,596	–	5,011	–	137,607
Restricted statutory deposits	8,992	–	–	–	8,992
Other financial assets	97,774	21	487	11	98,293
Total assets	639,697	3,686	16,185	77	659,645
Securities sold under agreements to repurchase	44,448	–	–	–	44,448
Derivative financial liabilities	10	–	–	–	10
Due to banks and other financial institutions	501	–	–	–	501
Subordinated debts	46,837	–	–	–	46,837
Investment contract liabilities for policyholders	41,640	–	–	–	41,640
Policyholder dividends payable	7,806	–	–	–	7,806
Pension benefit obligation	2,614	–	–	–	2,614
Other financial liabilities	35,799	119	4,301	19	40,238
Total liabilities	179,655	119	4,301	19	184,094

(Amounts in millions of Renminbi, unless otherwise stated)

41. RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(b) Financial risks *(continued)*

(3) Market risk (continued)

Foreign currency risk (continued)

31 December 2012	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	118,528	1,139	62	–	119,729
Insurance receivables	17,802	39	5,458	6	23,305
Term deposits	117,129	–	2,986	–	120,115
Restricted statutory deposits	7,880	–	–	–	7,880
Other financial assets	58,863	36	574	1	59,474
Total financial assets	586,721	23,610	11,461	26	621,818
Securities sold under agreements to repurchase	71,290	–	–	–	71,290
Derivative financial liabilities	3	–	–	–	3
Due to banks and other financial institutions	360	–	2	–	362
Subordinated debts	34,855	–	–	–	34,855
Investment contract liabilities for policyholders	50,312	–	–	–	50,312
Policyholder dividends payable	5,486	–	–	–	5,486
Pension benefit obligation	2,952	–	–	–	2,952
Other financial liabilities	30,557	76	5,528	15	36,176
Total liabilities	195,815	76	5,530	15	201,436

(Amounts in millions of Renminbi, unless otherwise stated)

41. RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(b) Financial risks *(continued)*

(3) Market risk (continued)

Foreign currency risk (continued)

The table below summarises the Company's assets and liabilities by major currency, expressed in the RMB equivalent:

31 December 2013	RMB	HKD	USD	Others	Total
Cash and cash equivalents	1,824	728	320	4	2,876
Debt securities	4,005	–	507	–	4,512
Equity securities	8,245	1,589	–	–	9,834
Term deposits	5,045	–	925	–	5,970
Other financial assets	2,386	–	26	–	2,412
Total financial assets	21,505	2,317	1,778	4	25,604
Securities sold under agreements to repurchase	1,955	–	–	–	1,955
Subordinated debts	17,856	–	–	–	17,856
Pension benefit obligation	2,614	–	–	–	2,614
Other financial liabilities	2,133	31	74	1	2,239
Total liabilities	24,558	31	74	1	24,664

31 December 2012	RMB	HKD	USD	Others	Total
Cash and cash equivalents	214	22,106	2	3	22,325
Equity securities	2,288	398	–	–	2,686
Term deposits	44	–	71	–	115
Other financial assets	1,646	–	4	1	1,651
Total financial assets	4,192	22,504	77	4	26,777
Subordinated debts	9,708	–	–	–	9,708
Pension benefit obligation	2,952	–	–	–	2,952
Other financial liabilities	2,892	–	75	–	2,967
Total liabilities	15,552	–	75	–	15,627

41. 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.

The Group

	31 December 2013	
Exchange rate of foreign currencies *(in millions of RMB)*	**Pre-tax impact on profit**	**Pre-tax impact on equity**
+5%	**604**	**775**
-5%	**(604)**	**(775)**

	31 December 2012	
Exchange rate of foreign currencies *(in millions of RMB)*	Pre-tax impact on profit	Pre-tax impact on equity
+5%	1,393	1,474
-5%	(1,393)	(1,474)

The Company

	31 December 2013	
Exchange rate of foreign currencies *(in millions of RMB)*	**Pre-tax impact on profit**	**Pre-tax impact on equity**
+5%	**95**	**200**
-5%	**(95)**	**(200)**

	31 December 2012	
Exchange rate of foreign currencies *(in millions of RMB)*	Pre-tax impact on profit	Pre-tax impact on equity
+5%	1,106	1,126
-5%	(1,106)	(1,126)

The method used for deriving sensitivity information and significant variables did not change from the previous year.

(Amounts in millions of Renminbi, unless otherwise stated)

41. 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 fair 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.

	As at 31 December	
The Group	**2013**	2012
Interest rate VaR	**1,226**	331

	As at 31 December	
The Company	**2013**	2012
Interest rate VaR	**30**	–

(Amounts in millions of Renminbi, unless otherwise stated)

41. RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(b) Financial risks *(continued)*

(3) Market risk (continued)

Price risk

Price risk is the risk that the fair value of future cash flows 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.

	As at 31 December	
The Group	**2013**	2012
Equity price VaR	**2,934**	8,271

	As at 31 December	
The Company	**2013**	2012
Equity price VaR	**351**	325

42. FAIR VALUE AND FAIR VALUE HIERARCHY

This note provides information on how the Group and Company determine the fair values of various financial assets and liabilities. Details of fair value measurements of investment properties are disclosed in note 24 to these financial statements.

(Amounts in millions of Renminbi, unless otherwise stated)

42. FAIR VALUE AND FAIR VALUE HIERARCHY *(continued)*

(a) Fair value of the financial assets and financial liabilities that are measured at fair value on a recurring basis

Some of the Group's and the Company's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

The Group

31 December 2013

Item	Fair value for the Group	Fair value for the Company	Fair value hierarch	Valuation technique(s) and key input(s)
Derivative financial assets- Interest rate swaps	16	–	Level 2	Discounted cash flow with future cash flows that are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contracted interest rates, discounted at a rate that reflects the credit risk of various counterparties.
Derivative financial liabilities- Interest rate swaps	10	–	Level 2	Discounted cash flow with future cash flows that are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contracted interest rates, discounted at a rate that reflects the credit risk of various counterparties.
Trading debt securities	12	2	Level 1	Quoted bid prices in an active market.
Trading debt securities	1,955	69	Level 2	Discounted cash flow with future cash flows that are estimated based on contractual amounts and coupon rates, discounted at a rate that reflects the credit risk of counterparty.
Available-for-sale debt securities	34,180	704	Level 1	Quoted bid prices in an active market.
Available-for-sale debt securities	82,793	3,737	Level 2	Discounted cash flow with future cash flows that are estimated based on contractual amounts and coupon rates, discounted at a rate that reflects the credit risk of counterparty.
Trading equity securities	16,780	5,443	Level 1	Quoted bid prices in an active market.
Available-for-sale equity securities	52,420	2,547	Level 1	Quoted bid prices in an active market.
Available-for-sale equity securities	–	1,576	Level 3	The fair value is determined with reference to the quoted market price with an adjustment of discount for lack of marketability.

In 2013, the Group and the Company does not have any assets transferred between fair value hierarchy Level 2 and Level 3.

(Amounts in millions of Renminbi, unless otherwise stated)

42. FAIR VALUE AND FAIR VALUE HIERARCHY *(continued)*

(a) Fair value of the financial assets and financial liabilities that are measured at fair value on a recurring basis *(continued)*

Financial instruments measured at fair value:

	As at 31 December 2012			
The Group	Level 1	Level 2	Level 3	Total
Trading financial instruments	6,844	3,075	–	9,919
Equity investments	6,834	–	–	6,834
Debt investments	10	3,075	–	3,085
Derivative financial instruments	–	70	–	70
Derivative financial assets	–	73	–	73
Derivative financial liabilities	–	(3)	–	(3)
Available-for-sale financial assets	83,555	79,715	18,500	181,770
Equity investments	68,145	–	18,500	86,645
Debt investments	15,410	79,715	–	95,125

	As at 31 December 2012			
The Company	Level 1	Level 2	Level 3	Total
Trading financial instruments				
Equity investments	20	–	–	20
Available-for-sale financial assets				
Equity investments	813	–	1,585	2,398

(Amounts in millions of Renminbi, unless otherwise stated)

42. FAIR VALUE AND FAIR VALUE HIERARCHY *(continued)*

(b) 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, subordinated debts and long-term debt investment schemes held, which are not carried at fair value. Except for those disclosed below, the fair values of the financial assets and financial liabilities are considered approximate to their carrying values recognised in these financial statements.

	As at 31 December 2013	
The Group	**Carrying amounts**	**Fair value**
Financial assets		
Held-to-maturity financial assets	**124,816**	**111,579**
Loans and debts	**73,542**	**72,786**
Financial liabilities		
Subordinated debts	**46,837**	**46,422**

	As at 31 December 2013	
The Company	**Carrying amounts**	**Fair value**
Financial liabilities		
Subordinated debts	**17,856**	**17,652**

	As at 31 December 2012	
The Group	Carrying amounts	Fair value
Financial assets		
Held-to-maturity financial assets	119,159	117,299
Loans and debts	39,110	39,270
Financial liabilities		
Subordinated debts	34,855	34,229

	As at 31 December 2012	
The Company	Carrying amounts	Fair value
Financial liabilities		
Subordinated debts	9,708	9,724

(Amounts in millions of Renminbi, unless otherwise stated)

42. FAIR VALUE AND FAIR VALUE HIERARCHY *(continued)*

(b) Fair value of financial assets and liabilities not carried at fair value *(continued)*

	Fair value hierarchy at 31 December 2013		
The Group	**Level 1**	**Level 2**	**Total**
Financial assets			
Held-to-maturity financial assets	7,354	104,225	111,579
Loans and debts	–	72,786	72,786
Financial liabilities:			
Subordinated debts	–	46,422	46,422

	Fair value hierarchy at 31 December 2013		
The Company	**Level 1**	**Level 2**	**Total**
Financial liabilities:			
Subordinated debts	–	17,652	17,652

The fair values of the financial assets and financial liabilities included in the level 2 categories above have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the discount rate that reflects the credit risk of counterparties.

(c) Reconciliation of Level 3 fair value measurements

The Group **31 December 2013**	**Available for-sale-shares with sale restriction**
Opening balance	18,500
Gains recognised in other comprehensive income and then reclassified to the profit or loss	2,448
Transfers out as an associate	(20,948)
Closing balance	–

The Company **31 December 2013**	**Available for-sale-shares with sale restriction**
Opening balance	1,585
Loss recognised in other comprehensive expenses	(9)
Closing balance	1,576

42. FAIR VALUE AND FAIR VALUE HIERARCHY *(continued)*

(c) Reconciliation of Level 3 fair value measurements *(continued)*

Since Industrial Bank shares are subject to a lock-up period of 36 months, in estimation of their fair value, the Group and the Company used quoted price of the shares taking into account of non-marketability discount estimated using Black-Scholes option pricing model. The Group and the Company used the historical volatility of share prices as the significant unobservable input in the fair value measurement of the non-marketability discount. An increase or decrease in historical volatility of shares would have a significant impact on the fair value measurement of non-marketability discount and the recorded fair value. Therefore, the interests in Industrial Bank were classified to level 3 fair value hierarchy. These fair values are determined by the finance departments of the relevant companies.

The historical volatilities used in measuring the fair value of shares of Industrial Bank as at 31 December 2013 are 30.02%. If this input was made higher/lower by 5% while all the other variables were held constant, the fair value of the Company's shares as at 31 December 2013 would be lower/higher by approximately RMB13 million.

As the Group has accounted for Industrial Bank using equity method since 8 May 2013 as described in note 23, the amount was transferred out from level 3 as a before-tax gain of RMB2,448 million and the related tax effect of RMB612 million was recognised as realised gains and deferred tax expenses, respectively. The fair value of Industrial Bank as at 8 May 2013 was deemed to be the cost of investment in this associate.

The fair value of investments in Industrial Bank is disclosed in note 23 to these consolidated financial statements was also based on the valuation methods described above.

As the fair values of all investment properties are categorised as Level 3, reconciliation of the fair value movements are presented in note 24 to these consolidated financial statements.

43. 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.

(Amounts in millions of Renminbi, unless otherwise stated)

43. CONTINGENCIES AND COMMITMENTS *(continued)*

(a) Contingencies *(continued)*

(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 report date, 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.

(4) Due to historical reasons, the Group owned a large number of branches and subsidiaries. Although these branches or subsidiaries may have been closed or liquidated, the Group may still have exposures to any non-compliance committed by these branches or subsidiaries.

Other than the above, as at the end of 2013, the Group had no significant contingencies to disclose.

(b) Capital commitments and operating leases

(1) Capital commitments

The Group	**31 December 2013**	31 December 2012
Property and equipment commitments:		
Contracted, but not provided for	**896**	1,665
Authorised, but not contracted for	**3,210**	3,248
TOTAL	**4,106**	4,913

The Company	**31 December 2013**	31 December 2012
Property and equipment commitments:		
Contracted, but not provided for	**37**	97
Authorised, but not contracted for	**2,175**	2,737
Equity investment commitment in a subsidiary:		
Authorised, but not contracted for	**1,600**	–
TOTAL	**3,812**	2,834

(Amounts in millions of Renminbi, unless otherwise stated)

43. CONTINGENCIES AND COMMITMENTS *(continued)*

(b) Capital commitments and operating leases *(continued)*

(2) Operating leases

(i) As lessor

The Group leases its investment properties (note 24) 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 2013 and 2012, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

The Group	**31 December 2013**	31 December 2012
Within one year	**216**	134
In the second to third years, inclusive	**206**	198
After three years	**143**	170
TOTAL	**565**	502

(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.

Future minimum lease payments under non-cancellable operating leases as at the end of 2013 and 2012 are as follows:

The Group	**31 December 2013**	31 December 2012
Within one year	**425**	129
In the second to third years, inclusive	**517**	305
After three years	**470**	279
TOTAL	**1,412**	713

(Amounts in millions of Renminbi, unless otherwise stated)

44. RELATED PARTY DISCLOSURES

(a) The Company is a state-owned enterprise and its controlling shareholder is MOF. The consolidated financial statements include the financial statements of the Company and its subsidiaries. Please refer to note 22 for more details of the Company's major subsidiaries.

(b) During the year, the Group had the following significant related party transactions:

The Group	**2013**	2012
Transactions with associates:		
China Credit Trust-Management fees	**330**	144
China Credit Trust-Dividend income	**283**	121
Industrial Bank-Interest income	**188**	–
Industrial Bank-Insurance premiums	**170**	–
Industrial Bank-Dividend income	**787**	–
Industrial Bank-Claims paid	**74**	–
Industrial Bank-Subordinated debts interest expenses	**54**	–
Industrial Bank-Handling charges	**2**	–

The Company	**2013**	2012
Transactions with subsidiaries:		
Rental income	**148**	85
Rental expenses	**17**	16
Management fees expenses	**64**	33
Capital injection	**12,437**	1,089
Dividend income	**2,936**	1,808
Transactions with associates:		
China Credit Trust-Dividend income	**283**	121

Managements fees were paid to China Credit Trust for certain trust investment schemes and charged at a rate of 1.19% for amounts invested.

Other transactions with these associates were conducted on a basis with reference to prevailing rates with other third parties.

Transactions between the Company and its subsidiary are based on prices negotiated among the Company and its subsidiaries.

Industrial Bank is not a related party as at 31 December 2012 and therefore the relevant amounts are not disclosed.

(Amounts in millions of Renminbi, unless otherwise stated)

44. RELATED PARTY DISCLOSURES *(continued)*

(c) Compensation of key management personnel

Key management personnel of the Company include Chairman and Executive Directors. The summary of compensation of key management personnel for 2013 and 2012 is as follows. The total compensation amounts for the year ended 31 December 2012 were restated based on the finalised amounts determined during 2013:

	2013 (in RMB '000)	2012 (in RMB '000) (Restated)
Short term employee benefits	**2,249**	2,664
Other long-term benefits	**–**	3,063
Post-employment benefits	**1,251**	1,397
Total compensation paid to key management personnel	**3,500**	7,124

Further details of directors' emoluments are included in note 11 to the consolidated financial statements.

(d) Balances with related parties

The Group-Receivables from related parties	**31 December 2013**	31 December 2012
Cash and cash equivalents:		
Industrial Bank	**301**	–
Debt securities:		
Industrial Bank	**2,138**	–
Term deposits:		
Industrial Bank	**1,774**	–
Other assets:		
The MOF	**707**	707
China Credit Trust	**294**	294
Industrial Bank	**67**	–
TOTAL	**5,281**	1,001

(Amounts in millions of Renminbi, unless otherwise stated)

44. RELATED PARTY DISCLOSURES *(continued)*

(d) Balances with related parties *(continued)*

The Group-Payables to related parties	31 December 2013	31 December 2012
Subordinated debts:		
Industrial Bank	**2,835**	–
Other liabilities:		
China Credit Trust	**687**	683
Industrial Bank	**54**	–
TOTAL	**3,576**	683

The Company	31 December 2013	31 December 2012
Receivables from related parties		
Other assets:		
The MOF	**707**	707
China Credit Trust	**294**	294
Subsidiaries	**1,174**	612
TOTAL	**2,175**	1,613
Payables to related parties		
Subordinated debts:		
Industrial Bank	**1,638**	–
Other liabilities:		
China Credit Trust	**687**	683
Subsidiaries	**532**	473
TOTAL	**2,857**	1,156

(e) 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 controlled, jointly controlled or significantly influenced by the government through its authorities, affiliates or other organisations (collectively the "government-related entities").

Transactions with other government-related entities include insurance policies sold, reinsurance purchased, deposits placed with banks, investments in debts or bonds and commissions pay to banks and postal offices for insurance policies distributed.

(Amounts in millions of Renminbi, unless otherwise stated)

44. RELATED PARTY DISCLOSURES *(continued)*

(e) Transactions with state-owned entities in the PRC *(continued)*

Management considers that transactions with government-related 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 government-related 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 government-related 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.

45. DISPOSAL OF SUBSIDIARIES

In 2012, a principal subsidiary of the Company disposed of certain subsidiaries. The carrying values of asset and liabilities of these subsidiaries at the date of disposal are set out below:

	Disposal date carrying amount
Current assets	6,276
Non-current assets	8,402
Total assets	14,678
Current liabilities	6,122
Non-current liabilities	3,124
Total liabilities	9,246
Net assets	5,432
Equity attributable to equity holders of the parent	2,421
Consideration	2,492
Transfer from other comprehensive income	130
Gain on disposal of subsidiaries	201

(Amounts in millions of Renminbi, unless otherwise stated)

45. DISPOSAL OF SUBSIDIARIES *(continued)*

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

46. EVENT AFTER THE REPORTING PERIOD

(a) According to the Company's announcement dated 12 December, 2013, the Company decided to exercise the right to redeem the subordinated debts issued in 2009 and served notices to the lenders according to the subordinated debt agreement. The Company redeemed the subordinated debts at RMB1,976 million, including par value of RMB1,900 million and interests of RMB76 million. This redemption was completed on 13 January 2014.

(b) On 20 February 2014, the board of directors of one subsidiary of the Company has approved the issue of a ten years subordinated term debts with an aggregate principal amount of not exceeding RMB11 billion. The terms and conditions of such issue, including the issue date, issue size and interest rates, will be determined by the board of directors after taking into account the market conditions and all other relevant factors. The issue of the subordinated term debts is subject to the approval of shareholders' general meeting of the Company, the China Insurance Regulatory Commission and other relevant governing authorities.

(c) On 28 March 2014, the Board of Directors of the Company proposed a final dividend of RMB0.83 cent per ordinary share and is subject to the approval of shareholders' general meeting of the Company.

47. APPROVAL OF THE FINANCIAL STATEMENTS

These consolidated financial statements were approved by the Board of Directors of the Company on 28 March 2014.

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

No. 69 Dong He Yan Street, Xuanwu District,
Beijing 100052, the PRC

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

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor, Hopewell Centre,
183 Queen's Road East, Wanchai, Hong Kong

WEBSITE

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LEGAL REPRESENTATIVE

Wu Yan

SECRETARY OF THE BOARD

Li Tao

COMPANY SECRETARY

Tai Chi Shan Psyche

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Consulting Actuaries:
Deloitte Consulting (Shanghai) Limited Beijing Branch

LEGAL ADVISORS

as to Hong Kong law
Davis Polk & Wardwell

as to PRC law
King & Wood Mallesons

PICC

中国人民保险集团股份有限公司

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