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 2016

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 the 119th in the List of Fortune Global 500 (2016) published by the Fortune magazine.

The Company operates its property and casualty ("P&C") insurance business in the PRC through PICC Property and Casualty Company Limited ("PICC P&C" listed on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") stock code: 02328) 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 95.45% equity interests, respectively. The Company centrally and professionally manages most of its insurance assets through PICC Asset Management Company Limited ("PICC AMC"), in which the Company holds 100% 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 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 takes PICC Financial Services Company ("PICC Financial Services") as professional platform for the layout of Internet finance in which the Company holds 100% of equity interest. The Company also operates reinsurance business within and outside the Group through PICC Reinsurance Limited ("PICC Reinsurance") in which the Company, directly or indirectly, holds 100% of 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

	2016	2015	% change	2014	2013	2012
Group consolidation						
Total assets	**932,149**	843,468	10.5	782,221	755,319	688,605
Total liabilities	**761,155**	686,273	10.9	656,644	660,518	605,308
Total equity	**170,994**	157,195	8.8	125,577	94,801	83,342
Gross written premiums	**439,874**	388,387	13.3	349,169	306,421	265,216
Net profit	**20,681**	27,665	-25.2	18,715	12,055	10,144
Net profit attributable to equity holders of the Company	**14,245**	19,542	-27.1	13,109	8,121	6,832
Earnings per share (RMB)(1)	**0.34**	0.46	-27.1	0.31	0.19	0.20
Net assets value per share (RMB)(1)	**2.97**	2.74	8.6	2.18	1.69	1.54
Weighted average return on equity (%)	**11.8**	18.7	Decrease of 6.9 pt	16.0	11.9	18.2

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

Mr. Wu Yan
Chairman

Dear shareholders,

2016 is the first year of the "13th Five-year Plan" period of The People's Insurance Company (Group) of China Limited. During the year, we effectively responded to such challenges as the pressure on economic downturn and the complicated economic environment. We firmly focused on the requirements on "Maintenance of stable growth, further reform and innovation and strengthen value creation", braved hardships and overcame difficulties. The Group maintained stable growth in business and the structure has been consistently improved, achieving a good beginning for the "13th Five-year Plan" period.

In 2016, the Group maintained steady and healthy development, continuously improved the internal quality of development and the business, assets and profits maintained stable growth. We unswervingly advanced the transformation of development models, focused on the improvement of the business structure and the development quality was continuously improved. In 2016, the Group received gross written premiums ("GWPs") of RMB439.874 billion, representing an increase of 13.3% compared to the corresponding period last year. Total assets reached RMB932.149 billion, representing an increase of 10.5% from the beginning of the year. The profit before tax was RMB25.319 billion and the net profit was RMB20.681 billion. The development of P&C insurance outperformed the market with the profit higher than the market. PICC P&C received Original Premiums Income of RMB310.453 billion, making it the first P&C insurance company with annual Original Premiums Income of over RMB300 billion in Asia. The Original Premiums Income of branches in 11 provinces exceeded RMB10 billion. The Original Premiums Income increased 10.5% compared to the corresponding period last year, 0.5 percentage points higher than the market and beating the market for the first time since it conducted shareholding reform and was listed. The combined cost ratio was 98.1%, 1.4 percentage points lower than the market. The regular contribution to the new life and health insurance maintained rapid growth with the value-based business making higher contributions. PICC Life received GWPs of RMB105.548 billion, representing an increase of 16.6% compared to the corresponding period last year. It received first-year regular total written premiums ("TWPs") of RMB16.316 billion, representing an increase of 173.9% compared to the corresponding period last year and 5.1 times of that of 2014. PICC Health received GWPs of RMB23.020 billion, representing an increase of 43.6% compared to the corresponding period last year. The investment sectors improved the assets allocation. The Group achieved total investment revenue of RMB43.461 billion with an investment yield rate of 5.8%.

In 2016, the Group pushed forward reform and innovation, which strengthened synergy and its capability of integrated development. We firmly pushed forward the implementation of key plans on reform and reorganization, strengthened the consolidation of the information technology, client and sales resources of the Group. We actively advanced the establishment of platforms for social insurance, insurance for agriculture, rural areas and farmers, inclusive finance and other services and developed and orderly facilitated the implementation of the international strategies of the Group. It vigorously advanced the industrial chain development, established the PICC Reinsurance and the PICC Financial Service. The preparation for The People's Pension Insurance Company of China Limited (中國人民養老保險有限責任公司) was approved by China Insurance Regulatory Commission ("CIRC") and the absorption and merger of No. 88 Company was generally completed. The Group achieved overall development in the whole insurance industry. It actively promoted innovation and convened the first system innovation meeting and established Ningbo Product Innovation Center to build the "insurance plus services" innovative model. It conducted pilot operation of the "one-stop" mobile display platform for life insurance and introduced the "Health Excellence plus" services. It deepened the establishment of the Party Building Coordination Committee and initiated the construction of an integrated sales platform of the Group. It conducted pilot operation of a unified platform shared by clients and promoted the joint establishment and sharing of urban and rural stores and the integration of community stores. It has established 416 demonstration points for the joint establishment and sharing of rural network in 27 provinces (municipalities and autonomous regions) and established 283 community stores for joint establishment and sharing in 26 provinces (municipalities and autonomous regions) to continue to promote the implementation of cross-selling & synergy long-term mechanisms at the grass-roots level. In 2016, the Group received TWPs of RMB31.791 billion from cross-selling & synergy business, representing an increase of 21.5% compared to the corresponding period last year, whose contribution to the Group's TWPs increased to 7.2%.

In 2016, the Group continued to serve the whole country, actively implemented the decisions and arrangements of the central government and vigorously performed the mission of "People's Insurance serves the People". We vigorously promoted poverty alleviation through insurance and continued to make innovations in the insurance mechanism. We actively advanced the "supporting agriculture and small enterprises", "state-support+ finance+insurance" and other pilot schemes on inclusive finance. We have explored the "financial poverty alleviation with insurance as the pioneer" in Fuping, Hebei, the "poverty alleviation insurance" in Ningxia, the "one-stop medical services" for medical expenses in Zhaotong, Yunnan and other experiences and approaches, which have laid a solid foundation for the development of inclusive finance. We actively served the development of modern agriculture, deepened the reform of the agricultural insurance operation and increased the efforts in exploring price insurance, meteorological index insurance, "insurance plus futures" and other new types of agricultural insurance. It developed 126 new types of agricultural insurance products and 11 agricultural futures price index insurance and received GWPs of RMB19.535 billion from agricultural insurance. It deeply participated in the innovation in social management and vigorously developed liability insurance. The Group received GWPs of RMB13.840 billion from liability insurance business, representing an increase of 19.3% compared to the corresponding period last year. It actively advanced the catastrophe insurance pilot scheme and the catastrophe insurance on residential houses and earthquake of PICC P&C was officially initiated. The Group assisted in shoring up weaknesses in people's livelihood, promoted the consolidation of social insurance businesses and strengthened the interaction of property and health insurances to give play to their advantages in expanding the critical illness insurance business. The critical illness insurance business served over 410 million people and received written premiums of RMB13.02 billion, representing an increase of 32% compared to the corresponding period last year.

In 2016, the Group adhered to law obedience and compliance, strengthened the management and control of risks in key industries and effectively enhanced the ability for healthy and sustainable development. We took the opportunity of the inspection policy of "Two Strengthen, Two Restrain", strengthened the dynamic monitoring on systematic incompliance and investigated illegal fund raisings to consolidate and expand earlier results and promote law obedience and compliance operation. With the implementation of the regulation on "China Risk Oriented Solvency System", we continued to further enhance the establishment of an integrated risk management system and advance the establishment and application of platforms for risk appetite, economic capital and basic risk materials to establish a unified risk appetite framework system and complete the risk measurement based on economic capital for the companies under the Group and seven subsidiaries. Driven by strengthening the establishment of the grass-roots internal control system, the Group fully promoted the application of the model of the internal control system and framework in nearly 3,000 institutes at the district and county level and 800 institutes at the municipal level of three insurance subsidiaries.

In 2016, the Group continued to put people first, strengthened the construction of corporate culture and further enhanced the cohesiveness and solidarity for the development of the Company. With the theme of "Keeping to Original Aspiration and Creating Greater Prosperity", we held the celebration of the 67th anniversary of the Company and granted the PICC commemorative medal for the 25th anniversary of PICC to promote the spirits and culture of "Keeping to Original Aspiration and Creating Greater Prosperity" and "Braving to Pioneer and Write New Chapters for Dreams" to enhance the recognition of cultural identity. We actively advocated the spirit of model workers and labors and organised the symposium on advanced teams and labor models with the theme of "Keeping to Original Aspiration and Devoting to Contribution" to stimulate the enthusiasm of employees in working and entrepreneurship. We actively implemented employees care, the enterprise annuity system, established the "PICC Employees Love Day" and increased the assistance to employees with financial difficulties, in order to share the development results of the Company with employees.

2017 is a crucial year for The People's Insurance Company (Group) of China Limited to promote the implementation of the "13th Five-year" plan. Based on the external environment, the 19th National Congress of the Communist Party of China ("CPC") will be convened this year. The general situation of the CPC and the whole country is to maintain a stable political environment, macroeconomic environment and social livelihood. Under the leadership of the central government with the keynote of "seeking progress while maintaining stability", prudent and neutral monetary policies and proactive and effective fiscal policies will promote the stable development of the macroeconomy. The effects of social security and other policies supporting people's livelihood will consistently show out. For industrial development, based on the central government's requirements on giving priority to the prevention of financial risks, the regulatory authorities will seriously punish activities crossing the red lines for risks. It will guide insurance institutes in "insurance provides protection first" and strengthen value development.

In view of the new developments, The People's Insurance Company (Group) of China Limited will continue to maintain stable growth, optimize the structure, create value and prevent risks. It will increase the efforts in reform and innovation, strengthen the aggregation effect and continue to promote the transformation with clients as the center. It will establish advanced service abilities and seek progress and quality improvement while maintaining stable growth and firmly promote the implementation of the "13th Five-year" plan of the Group to create more value for shareholders. Firstly, it will continue to strengthen the concept of overall development and give full play to the functions of the insurance mechanism to foster the long-term competitiveness of the Group in serving economic and social development. Secondly, it will deepen the integrated construction of the Group, strengthen the integrated systematic supports of the Group to advance the sharing of line resources, establish a decision-making mechanism for innovation and continuously enhance its synergy. Thirdly, it will deeply advance innovation and development and establish the decision-making mechanism, talents mechanism and incentive mechanism for innovation and strengthen the momentum of the Group for sustainable development. Fourthly, it will deeply promote development and transformation, expand the development of property insurance business and realize its potential in its value, remain determined and patient in the transformation of life and health insurances and grasp the key sectors in investment management to ensure continuous growth in the value of the Group. Fifthly, it will reinforce the internal control compliance and risks prevention and practically prevent the gathering and amplification of partial risks, the spillover and inward and outward spreading of internal risks and external risks to safeguard the bottom line that no systematic risks should occur. Sixthly, it will enhance the construction of the executive forces and firmly focus on the appraisal, reporting, supervision and inspection and other processes of reform plans, improve a mechanism on feedbacks to inspection and establish an effective supervision and accountability mechanism to firmly advance the implementation of key integration plans.

We trust that with the support of all shareholders and the efforts of all our employees, The People's Insurance Company (Group) of China Limited will continue to transform and develop with the clients and return all shareholders, employees and the society with outstanding achievements.

Wu Yan
Chairman

Beijing, the PRC
24 March 2017

Honors and Awards

1. Ranked the 119th in the List of Fortune Global 500

   In July 2016, the Company ranked the 119th in the list of Fortune Global 500 published by the Fortune magazine in the US, 55 ranks higher than in the year 2015 and 252 ranks higher than in the year of 2010.

2. Ranked the 24th in the list of Top 500 Enterprises of China (2016)

   In September 2016, the Company ranked the 24th in the list of Top 500 Enterprises of China in 2016. The Company also ranked the 13th in the list of Top 500 Service Industry Enterprises of China in 2016.

3. Awarded "Most Trustworthy Insurance Company by People"

   In November 2016, the Company was awarded the "Most Trustworthy Insurance Company by People" in the "2016 Financial List for the 7th Brand Life List" (第七屆品牌生活榜2016金融榜) hosted by China Comment (半月談) of Xinhua News Agency.

4. PICC P&C was awarded the "Best Listed Company" Award at the 6th Golden Bauhinia Awards

   In November 2016, PICC P&C was awarded the "Best Listed Company" at the 6th Golden Bauhinia Awards organised by the Hong Kong Ta Kung Wen Wei Media Group Limited and other institutes.

5. PICC P&C was awarded the "Insurance Company of the Year 2016 (Property Insurance)"

   In November 2016, PICC P&C was awarded the "Insurance Company of the Year 2016 (Property Insurance)" (2016年度保險公司(財險)) at the appraisal of China Business financial value list organised by China Business News.

6. PICC P&C was awarded the "Best Property Insurance Company in Asia in 2016"

   In November 2016, PICC P&C ranked first in the "Ranking of Competitiveness of Insurance Enterprises in Asia" and was awarded the "Best Property Insurance Company in Asia in 2016" organised by the 21st Century Business Herald and the Financial Research Center of the 21st Century Research Institution.

7. PICC P&C was awarded the "China Social Responsibility Outstanding Enterprise Award of 2016"

   In December 2016, PICC P&C was awarded the "China Social Responsibility Outstanding Enterprise Award of 2016" (2016 中國社會責任傑出企業獎) at the 9th Enterprise Social Responsibility Summit (第九屆企業社會責任峰會) organised by Xinhuanet.com and the Research Center for Corporate Social Responsibility Chinese Academy of Social Sciences.

8. PICC P&C was awarded the "Outstanding Property Insurance Brand Prize" at "2016 Lead the Chinese Advance"

   In December 2016, PICC P&C was awarded the "2016 Lead the Chinese Advance Annual Ceremony – Outstanding Property Insurance Brand Prize" (2016領航中國年度評選－傑出財險品牌獎) at "2016 Lead the Chinese Advance" annual award for the financial industry organised by JRJ.com.

9. PICC P&C was awarded the "Golden Cicada Award 2016 Best Property Insurance Company"

   In January 2017, PICC P&C was awarded the "Golden Cicada Award 2016 Best Property Insurance Company" organised by China Times.

10. PICC AMC was awarded the "Ark Prize in Chinese Insurance Industry in 2016"

    In July 2016, PICC AMC was awarded the "Ark Prize for Trustworthy Insurance and Asset Management Company in 2016" (2016年度值得信賴保險資產管理公司方舟獎) and the insurance and guarantee fund investment team of the department with fixed returns was awarded the "Ark Prize for Outstanding Insurance Investment Team in 2016" (2016年度卓越保險投資團隊方舟獎) organised by the Securities Times.

11. PICC AMC was awarded two honors of the "Golden Shell Prize"

    In July 2016, PICC AMC was awarded the "Insurance Asset Management Company with Best Innovation Practice in 2016" (2016最佳創新實踐保險資產管理公司) and the "Insurance Asset Management Company with Best Equity Investment Plan in 2016" (2016最佳股權投資計劃保險資產管理公司) at the "Golden Shell Prize" organised by the 21st Century Business Herald, making it the only insurance asset management company winning two prices in the "Golden Shell Prize".

12. PICC AMC was awarded the China Outstanding Financial Prize

    In December 2016, PICC AMC was awarded the "Annual Outstanding Innovative Insurance Asset Management Company for China Outstanding Financial Prize in 2015-2016" (2015-2016中國卓越金融獎年度卓越創新保險資管管理公司) at the "Observer Financial Summit" organised by the Economic Observer.

13. PICC Health was awarded the "Business Innovation Prize in Chinese Insurance Leader's List"

    In July 2016, PICC Health was awarded the "Business Innovation Prize" in the Chinese Insurance Leader's List 2016 organised by the National Business Daily.

14. PICC Health was awarded the "Best Health Insurance Company of the Year"

    In December 2016, PICC Health was awarded the "Best Health Insurance Company of the Year" (年度最佳健康險公司) at the "2016 Annual Meeting of Financial News" organised by the Financial News Press (金融時報社).

15. PICC Health was awarded the "Top Ten Innovative Enterprises in the Chinese Health Industry in 2016"

    In December 2016, PICC Health was awarded the "Top Ten Innovative Enterprises in the Chinese Health Industry in 2016" (2016中國健康產業十大創新企業) at the "China Innovation Forum in 2016" jointly organised by the China Business Herald News Weekly Press (中國商報社) and the Today's Economy magazine (今日經濟雜誌).

16. PICC Life was awarded the "Ark Prize in Chinese Insurance Industry Innovation in 2016"

    In July 2016, PICC Life was awarded the "Ark Prize in Chinese Insurance Industry Innovation in 2016" (2016中國保險業創新方舟獎) at the "2016 Chinese Insurance Industry Asset and Liabilities Management Annual Meeting and the China Wealth Management Forum" (2016年中國保險業資產負債管理年會暨中國財富管理論壇) jointly organised by the Securities Times Press (《證券時報》社) and the Insurance Asset Management Association of China.

17. PICC Life was awarded the "Social Responsibility Award" organised by JRJ.com in 2016

    In December 2016, PICC Life was awarded the "Social Responsibility Award" in 2016 at the fifth "2016 Lead the Chinese Advance Annual Forum and Annual Ceremony" (2016年金融界領航中國年度論壇暨年度盛典) organised by JRJ.com.

18. PICC Life was awarded the "Insurance Company with Outstanding Value Operation in the 7th Golden Tripod Awards"

    In December 2016, PICC Life was awarded the "Insurance Company with Outstanding Value Operation in the 7th Golden Tripod Awards" (第七屆金鼎獎卓越價值經營保險公司) at the "2016 Night of Golden Tripod – 7th Golden Tripod Awards Award Ceremony" organised by the National Business Daily.

19. PICC Life was awarded the "Leading Enterprise in China's Economic Transformation and Development in 2016" organised by CCTV

    In January 2017, PICC Life was awarded the "Leading Enterprise in China's Economic Transformation and Development in 2016" at the 6th Chinese Investors Conference Awards (第六屆中國投資者大會評獎) organised by securities information channel of CCTV.

20. PICC Capital was awarded prizes at the Insurance and Asset Management Products Innovation and Creativity Competition

    In November 2016, PICC Capital was awarded the "Prize for the Best Organization" (最佳組織獎), "PICC Innovative Products for Agriculture and Small and Micro Enterprises" were awarded the first prize for innovative products and the "PICC Capital – CSCEC Maritime Silk Road Infrastructure PPP Equity Financing Plan (Phase-I)" (人保資本－中建海上絲路基礎設施PPP項目股權投資計劃(一期)) were awarded the first prize in creative products at the "2nd Insurance and Asset Management Products Innovation and Creativity Competition" (第二屆保險資管產品創新創意大賽) organised by the Insurance Asset Management Association of China.

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 95.45% equity interest directly and indirectly; and the asset management business constitutes the asset management segment and primarily includes PICC AMC, PICC Investment Holding, PICC Capital, and PICC Asset Management (Hong Kong) Company Limited ("PICC AMHK"), in which the Company holds 100%. The Company also holds 100% equity interest in PICC Financial Services.

KEY OPERATING INDICATORS

(1) Key Operating Data

Unit: RMB in millions, except for percentages

	For the Year Ended 31 December		
	2016	2015	(% of change)
Original Premiums Income			
PICC P&C	**310,453**	281,010	10.5
PICC Life	**105,115**	89,608	17.3
PICC Health	**23,020**	16,031	43.6
Combined ratio of PICC P&C (%)	**98.1**	96.5	Increase of 1.6 pt
Value of one year's new business of PICC Life(1)	**4,131**	2,698	53.1
Value of one year's new business of PICC Health(1)	**325**	274	18.6
Total investment yield (%)	**5.8**	7.3	Decrease of 1.5 pt

Unit: RMB in millions, except for percentages

	As of 31 December 2016	As of 31 December 2015	(% of change)
Market share (2)			
PICC P&C (%)	**33.5**	33.4	Increase of 0.1 pt
PICC Life (%)	**4.8**	5.6	Decrease of 0.8 pt
PICC Health (%)	**1.1**	1.0	Increase of 0.1 pt
Embedded Value of PICC Life(3)	**57,558**	55,322	4.0
Embedded Value of PICC Health(3)	**7,118**	4,097	73.7

	As of 31 December 2016	As of 31 December 2015 (Unaudited)(4)	(% of change)
Comprehensive solvency margin ratio (%)			
PICC Group	**284**	295	Decrease of 11 pt
PICC P&C	**287**	284	Increase of 3 pt
PICC Life	**177**	216	Decrease of 40 pt
PICC Health	**215**	205	Increase of 10 pt
Core solvency margin ratio (%)			
PICC Group	**220**	235	Decrease of 15 pt
PICC P&C	**232**	245	Decrease of 13 pt
PICC Life	**149**	183	Decrease of 34 pt
PICC Health	**200**	175	Increase of 25 pt

(1) The value of one year's new business of PICC Life and PICC Health for the 12 months up to 31 December 2015 are re-calculated based on the assumption of investment return rate as of 31 December 2016 and the "Guidance on Actuarial Practice: Valuation of Embedded Value for Life and Health insurance" (Other assumptions remain the same as of 31 December 2015).

(2) The market share was based on the statistics and measurement of the Original Premiums Income in the PRC (excluding Hong Kong, Macau and Taiwan) published by the China Insurance Regulatory Commission (the "CIRC"), and 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 represents their respective market share among all life and health insurance companies.

(3) The embedded value of PICC Life and PICC Health as of 31 December 2015 are re-calculated based on the assumption of investment return rate as of 31 December 2016 and the "Guidance on Actuarial Practice: Valuation of Embedded Value for Life and Health insurance" (Other assumptions remain the same as of 31 December 2015).

(4) Comprehensive solvency margin ratios and core solvency margin ratios of the Group, PICC P&C, PICC Life and PICC Health as of 31 December 2015 are calculated in accordance with the regulatory requirements under "Solvency II" and are not audited.

In 2016, adhering to its key aspiration of "Maintaining stable growth, focusing on reform and innovation and emphasizing value creation" with firm confidence, the Group grasped opportunities and overcame difficulties to lay a solid foundation. The Group has shown a steady growth in its business and its structure continued to be optimised. In 2016, the market share of PICC P&C in the P&C insurance market was 33.5%, the market share of PICC Life in life and health insurance market was 4.8% and the market share of PICC Health in life and health insurance market was 1.1%. In terms of the total written premiums (the "TWPs"), in 2016, the TWPs of PICC P&C, PICC Life, PICC Health and PICC Hong Kong amounted to RMB310,453 million, RMB116,556 million, RMB28,055 million and HKD125 million, respectively. The Group proactively pushed for a transformation towards being "customer-oriented", and for a unification in the construction of the Group. The TWPs generated by cross-selling & synergy among the Group's business lines grew by 21.5% to RMB31,791 million in 2016 from RMB26,175 million in 2015.

(2) Key Financial Indicators

Unit: RMB in millions, except for percentages

	For the Year Ended 31 December		
	2016	2015	(% of change)
Gross written premiums	**439,874**	388,387	13.3
P&C Insurance	**311,306**	281,817	10.5
Life Insurance	**105,548**	90,539	16.6
Health Insurance	**23,020**	16,031	43.6
Profit before tax	**25,319**	33,970	(25.5)
Net profit	**20,681**	27,665	(25.2)
Net profit attributable to equity holders of the Company	**14,245**	19,542	(27.1)
Earnings per share (RMB)	**0.34**	0.46	(27.1)
Weighted average return on equity (%)	**11.8**	18.7	Decrease of 6.9 pt

Unit: RMB in millions, except for percentages

	As of 31 December 2016	As of 31 December 2015	(% of change)
Total assets	**932,149**	843,468	10.5
Total liabilities	**761,155**	686,273	10.9
Total equity	**170,994**	157,195	8.8
Net assets per share (RMB)	**2.97**	2.74	8.6
Gearing ratio[(1)] (%)	**81.7**	81.4	Increase of 0.3 pt

(1) The gearing ratio refers to the ratio of total liabilities to total assets.

The Group's capital base has been further strengthened, in which total equity grew by 8.8% to RMB170,994 million as of 31 December 2016 from RMB157,195 million as of 31 December 2015. The Group's gross written premiums ("GWPs") increased by 13.3% to RMB439,874 million in 2016 from RMB388,387 million in 2015. In the circumstances of capital market fluctuations and frequent natural disasters, the Group's net profit decreased by 25.2% to RMB20,681 million in 2016 from RMB27,665 million in 2015. Profit attributable to equity holders of the Company dropped by 27.1% to RMB14,245 million in 2016 from RMB19,542 million in 2015. Given the scale of decrease in profits, the weighted average return on equity of the Group decreased by 6.9 percentage points to 11.8% in 2016 from 18.7% in 2015.

The net assets per share of the Group increased by 8.6% to RMB2.97 as of 31 December 2016 from RMB2.74 as of 31 December 2015. The Group's earnings per share decreased by 27.1% to RMB0.34 in 2016 from RMB0.46 in 2015. The Group's gearing ratio increased by 0.3 percentage points to 81.7% as of 31 December 2016 from 81.4% as of 31 December 2015.

P&C INSURANCE BUSINESS

In 2016, the construction of modernisation of the country's governance system and governance capability was accelerated, the new economy such as internet+ and cloud computing developed prosperously, the economic structure was continuously improved, transformation of traditional production capacity and deepening of supply-side structural reform coexisted, and the P&C insurance segment of the Group faced the dual challenges of upgrading traditional insurance supply and innovating insurance demands. In 2016, the P&C insurance segment of the Group closely followed the annual target, overcame the great pressure from the downward trend of macro-economy and the continued bleakness of the capital market, confronted the challenge of severe market competition, effectively addressed the major test from deregulation of premium rate of commercial motor vehicle insurance and taxation system adjustment of "replacing business tax with value-added tax", and achieved a recovery of the market share for the first time since its shareholding reform and listing as well as a business growth rate exceeding that of the market; its profitability surpassed that of the market, the leading edge was extended continuously, and both the development and profitability of the segment presented a good momentum.

(1) Analysis by Product

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

Unit: RMB in millions, except for percentages

	For the Year Ended 31 December		
	2016	2015	(% of change)
Motor vehicle insurance	**225,877**	204,271	10.6
Commercial property insurance	**12,562**	12,970	(3.1)
Liability insurance	**13,840**	11,605	19.3
Accidental injury and health insurance	**23,433**	18,561	26.2
Cargo insurance	**2,999**	3,230	(7.2)
Agricultural insurance	**19,535**	18,944	3.1
Other P&C insurance	**13,060**	12,236	6.7
Total	**311,306**	281,817	10.5

GWPs for the P&C insurance segment increased by 10.5% to RMB311,306 million in 2016 from RMB281,817 million in 2015. The overall steady growth was largely driven by the development in the motor vehicle insurance, agricultural insurance, accidental injury and health insurance, liability insurance and credit insurance.

GWPs for motor vehicle insurance increased by 10.6% to RMB225,877 million in 2016 from RMB204,271 million in 2015. In 2016, the P&C insurance segment continued to increase marketing efforts for motor vehicle insurance product packages, and its conservation and coverage ratio of motor vehicle insurance further increased. In 2016, the P&C insurance segment upgraded its model for cooperation with vehicle dealers to improve the efficiency of resource allocation, and strategically developed the market for medium-and high-end new vehicle. As the growth rate of new vehicles picked up, the number of insured vehicles and income from premium of new vehicles maintained strong growth. Moreover, the P&C insurance segment tapped into the existing business resources, focused on the policy renewal and regain of existing business, and vigorously drove a steady growth in the motor vehicle insurance business.

GWPs for commercial property insurance decreased by 3.1% to RMB12,562 million in 2016 from RMB12,970 million in 2015. In 2016, as a result of deep adjustment to economic structure, the demand for commercial property insurance was insufficient, and its Comprehensive commercial property insurance business and machinery breakdown insurance business both declined.

GWPs for liability insurance increased by 19.3% to RMB13,840 million in 2016 from RMB11,605 million in 2015. In 2016, the State Council and various government departments issued a number of policies and documents, providing strong policy support for the expansion of coverage and increase in penetration rate of liability insurance. In the P&C insurance segment, traditional insurance including employer, medical, public and product liability insurance maintained good momentum of development. In addition, the P&C insurance segment actively developed innovative products. The liability insurance of the first major technological equipment, property preservation during the course of proceeding, online shopping shipment fee loss and motor vehicle extended maintenance have become our new business growing point.

GWPs for accidental injury and health insurance increased by 26.2% to RMB23,433 million in 2016 from RMB18,561 million in 2015. In 2016, the P&C insurance segment seized the opportunities brought by the market to consolidate policy renewal business. It actively developed new market, strengthened the vertical integration and development, deeply explored customer resources, strengthened the sales skills at low level, and vigorously promoted new platform and application such as sales of mobile phones. Emerging business such as motor vehicle driver and passenger accident insurance grew fast, and traditional business such as school children insurance and construction accident insurance grew steadily, with critical illness insurance, supplementary medical insurance for urban workers and new rural co-operatives basic medical insurance contributing a large portion of increased premiums.

GWPs for cargo insurance decreased by 7.2% to RMB2,999 million in 2016 from RMB3,230 million in 2015. In 2016, China's economy entered a new normal state of development. With the in-depth adjustment to economic structure, weak import and export trading and decrease in railway transportation, the number and price of sources of cargo insurance decreased.

GWPs for agricultural insurance increased by 3.1% to RMB19,535 million in 2016 from RMB18,944 million in 2015. In 2016, with the full opening of agricultural insurance market, and the increasingly fierce market competition, and the growth of agricultural insurance among the P&C insurance segment slowed down. The growth of agricultural insurance business mainly came from animal breeding insurance business such as fattening pigs, reproductive sow and dairy cows.

GWPs attributable to other P&C insurance in the P&C insurance segment increased by 6.7% to RMB13,060 million in 2016 from RMB12,236 million in 2015. In 2016, personal credit insurance, loan guarantee insurance, performance guarantee insurance and product quality insurance among the P&C insurance segment recorded fast growth, leading to the rapid growth of credit insurance business.

(2) Analysis by Channel

The following table sets forth a breakdown of Original Premiums Income of PICC P&C by distribution channel for the reporting periods indicated, which can be further divided into insurance agents, direct sales and insurance brokerage. In 2016, PICC P&C analysed the trend for obtaining channel business, established clear channel positioning, deeply divided the channels, and improved channel presence to implement a differentiated channel business model and integrated channel strategy. It planned for internet strategic development, accelerated the transformation towards telemarketing and online sales and continuously optimized coordination between property, life and health insurance, which led to continuous growth in the business.

Unit: RMB in millions, except for percentages

	For the Year Ended 31 December				
	2016			2015	
	Amount	**(% of total)**	**(% of change)**	Amount	(% of total)
Insurance agents	**206,904**	**66.7**	**27.2**	162,617	57.9
Among which:					
Individual insurance agents	**109,044**	**35.1**	**27.4**	85,579	30.5
Ancillary insurance agents	**56,681**	**18.3**	**7.5**	52,749	18.8
Professional insurance agents	**41,179**	**13.3**	**69.5**	24,289	8.6
Direct sales	**87,968**	**28.3**	**(15.2)**	103,755	36.9
Insurance brokerage	**15,581**	**5.0**	**6.4**	14,638	5.2
Total	**310,453**	**100.0**	**10.5**	281,010	100.0

(3) Financial Analysis

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

Unit: RMB in millions, except for percentages

	For the Year Ended 31 December		
	2016	2015	(% of change)
Net earned premiums	**270,783**	245,110	10.5
Investment income	**15,280**	20,302	(24.7)
Other income	**1,579**	1,465	7.8
Total income	**297,733**	276,587	7.6
Net claims and policyholders' benefits	**172,087**	153,819	11.9
Handling charges and commissions	**46,578**	31,541	47.7
Finance costs	**1,208**	1,638	(26.3)
Other operating and administrative expenses	**59,530**	62,838	(5.3)
Total benefits, claims and expenses	**278,988**	249,505	11.8
Profit before tax	**24,921**	30,223	(17.5)
Income tax expense	**(4,439)**	(6,340)	(30.0)
Net profit	**20,482**	23,883	(14.2)

Net earned premiums

Benefiting from the steady development in the businesses of motor vehicle insurance, agricultural insurance, accidental injury and health insurance, liability insurance and credit insurance, net earned premiums of the P&C insurance segment increased by 10.5% to RMB270,783 million in 2016 from RMB245,110 million in 2015.

Investment income

Investment income of the P&C insurance segment decreased by 24.7% to RMB15,280 million in 2016 from RMB20,302 million in 2015. This was primarily due to the decline in equity market, capital market volatility and lower yield from new investment and reinvestment under the current low interest rate environment.

Net claims and policyholders' benefits

Net claims and policyholders' benefits for the P&C insurance segment increased by 11.9% to RMB172,087 million in 2016 from RMB153,819 million in 2015, of which the loss ratio of PICC P&C increased by 0.8 percentage points to 63.5% in 2016 from 62.7% in 2015. In 2016, as a result of natural disasters including Typhoon Meranti, tornado in Yancheng, Jiangsu Province and floods in various places, there were more cases with individual large claims for commercial property insurance and agricultural insurance for the P&C insurance segment, and the loss ratio increased.

Handling charges and commissions

Handling charges and commissions of the P&C insurance segment increased by 47.7% to RMB46,578 million in 2016 from RMB31,541 million in 2015. The increase in handling charges and commissions were mainly due to steady increase in business scale, increased investment in quality business and more intense market competition.

Finance costs

Finance costs of the P&C insurance segment decreased by 26.3% to RMB1,208 million in 2016 from RMB1,638 million in 2015. The decrease in finance costs was mainly due to the decrease in interest expenses relating to our subordinated debts and interest expenses of financial assets sold under agreements to repurchase.

Net profit

As a result of the foregoing reasons, the net profit of the P&C insurance segment decreased by 14.2% to RMB20,482 million in 2016 from RMB23,883 million in 2015.

LIFE AND HEALTH INSURANCE

(1) Life insurance

In 2016, the PRC life insurance industry continued the momentum of rapid growth and the premium income further increased. The Group's life insurance segment continued to implement the strategy of "Stabilizing growth, emphasizing value, strengthening the foundation" and follow the guidance of "Insurance provides protection first". Its regular premiums business recorded rapid growth, and valuable business as a percentage increased, demonstrating notable results for transformation and development. As of the end of 2016, the Group's life insurance segment recorded TWPs of RMB116,556 million; the TWPs of first-year regular premiums increased by 173.9% as compared to that for the previous year, and its percentage to first year TWPs increased.

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:

Unit: RMB in millions, except for percentages

	For the Year Ended 31 December			
	2016		2015	
Life insurance products	**Amount**	**% of total**	Amount	% of total
Traditional life and health insurance	**85,572**	**81.4**	74,512	83.2
Participating life insurance	**16,595**	**15.8**	11,495	12.8
Universal life insurance	**91**	**0.1**	83	0.1
Accidental injury and short-term health insurance	**2,857**	**2.7**	3,519	3.9
Total	**105,115**	**100.0**	89,608	100.0

In terms of TWPs, in 2016, the TWPs of traditional life and health insurance, participating life insurance, universal life insurance, accidental injury and short-term health insurance amounted to RMB87,282 million, RMB17,725 million, RMB8,692 million and RMB2,857 million, respectively, of which traditional life and health insurance continued to maintain a good momentum and its TWP increased by 17.1% as compared to same period in 2015. This was primarily attributed to the growth in products with insurance protection and wealth management function.

2. *Analysis by Channel*

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

Unit: RMB in millions, except for percentages

	For the Year Ended 31 December		
	2016	2015	(% of change)
Bancassurance	**59,166**	56,568	4.6
First-year business of long-term insurance	**55,622**	53,135	4.7
Single premiums	**49,421**	51,852	(4.7)
First-year regular premiums	**6,201**	1,282	383.7
Renewal business	**3,413**	3,264	4.6
Short-term insurance	**132**	169	(21.9)
Individual Insurance	**35,559**	24,524	45.0
First-year business of long-term insurance	**25,226**	18,323	37.7
Single premiums	**15,555**	13,731	13.3
First-year regular premiums	**9,671**	4,591	110.7
Renewal business	**9,306**	4,658	99.8
Short-term insurance	**1,027**	1,543	(33.4)
Group Insurance	**10,389**	8,517	22.0
First-year business of long-term insurance	**8,683**	6,649	30.6
Single premiums	**8,454**	6,647	27.2
First-year regular premiums	**229**	2	11,350.0
Renewal business	**8**	62	(87.1)
Short-term insurance	**1,698**	1,807	(6.0)
Total	**105,115**	89,608	17.3

In terms of TWPs, the TWPs from the bancassurance channel, individual insurance agent channel and group insurance sales channel amounted to RMB62,854 million, RMB40,121 million and RMB13,580 million respectively for 2016.

In the life insurance segment, the individual insurance channel focused on high-value regular premiums business, and the number of sales persons continued to record rapid growth. The sales capability of the sales team significantly improved, with first year TWPs of regular premiums business doubled and a significant increase in the percentage of medium-and high-value business. As of the end of 2016, the number of insurance agents for the life insurance segment was 189,261. The first-year TWPs per capita from sales agent amounted to RMB5,323 with number of new life insurance policies per capita of 1.49 per month. The bancassurance channel focused on value transformation. While its business scale remained steady, the TWPs of first-year regular premiums recorded significant increase. The group insurance channel focused on legal person and high-value business, and its business development capabilities continued to improve.

3. *Persistency Ratios of premiums*

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

	For the Year Ended 31 December	
Item	**2016**	2015
13-month premium persistency ratio[(1)] (%)	**91.3**	88.9
25-month premium persistency ratio[(2)] (%)	**85.3**	84.3

(1) The 13-month premium persistency ratio for a given year is the proportion of actual TWPs of long-term regular premium individual life insurance policies issued in the preceding year on the 13th month after they were issued and effective, to the actual TWPs of such policies in the year of their issuance;

(2) The 25-month premium persistency ratio for a given year is the proportion of actual TWPs of long-term regular premium individual life insurance policies issued in the penultimate year on the 25th month after they were issued and effective, to the actual TWPs of such policies in the year of their issuance.

4. *Financial Analysis*

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

Unit: RMB in millions, except for percentages

	For the Year Ended 31 December		
	2016	2015	(% of change)
Net earned premiums	**105,162**	89,850	17.0
Investment income	**15,720**	21,046	(25.3)
Other income	**621**	327	89.9
Total income	**121,736**	111,310	9.4
Net claims and policyholders' benefits	**109,187**	97,996	11.4
Handling charges and commissions	**6,900**	4,307	60.2
Finance costs	**1,752**	1,612	8.7
Other operating and administrative expenses	**6,972**	6,819	2.2
Total benefits, claims and expenses	**124,637**	110,551	12.7
Profit before tax	**447**	3,460	(87.1)
Income tax expense	**5**	96	(94.8)
Net profit	**452**	3,556	(87.3)

Net earned premiums

Net earned premiums for the life insurance segment increased by 17.0% to RMB105,162 million in 2016 from RMB89,850 million in 2015, mainly due to clear development philosophy, favourable business transformation measures, key products which meet market and customers' needs and improving service quality.

Investment income

Investment income of the life insurance segment decreased by 25.3% to RMB15,720 million in 2016 from RMB21,046 million in 2015. This was primary due to the poor performance of the equity market, capital market volatility and lower yield from new investment and reinvestment under the current low interest rate environment.

Other income

Other income of the life insurance segment increased by 89.9% to RMB621 million in 2016 from RMB327 million in 2015. This was mainly attributable to the increase in income from policy initiation fees.

Net claims and policyholders' benefits

Net claims and policyholders' benefits for the life insurance segment increased by 11.4% to RMB109,187 million in 2016 from RMB97,996 million in 2015. This was mainly attributable to the increase in surrenders of policies.

Handling charges and commissions

Handling charges and commissions of the life insurance segment increased by 60.2% to RMB6,900 million in 2016 from RMB4,307 million in 2015, mainly due to the increase in first-year regular premiums income and optimization of the business structure.

Finance costs

Finance costs of the life insurance segment increased by 8.7% to RMB1,752 million in 2016 from RMB1,612 million in 2015, which was mainly due to the increase in interests credited to policyholders' deposits and investment amounts.

Net profit

As a result of the foregoing reasons, the net profit of the life insurance segment decreased by 87.3% to RMB452 million in 2016 from RMB3,556 million in 2015.

(2) Health Insurance

In 2016, under the guidance of "Speed up transformation and develop through innovation" and by strengthening value orientation and adhering to the operational strategy of "Profession with feature, transformation with effectiveness, turnaround with results", the health insurance segment of the Group underwent massive reforms in cost management and control as well as performance management, fully strengthened the improvement in profitability, and successfully turned loss into profit. It vigorously promoted the co-development of the three major business segments, namely government commission insurance business, commercial health insurance business and health management insurance business. It adjusted and optimized product portfolio. Business with high embedded value grew rapidly. First year regular premium of individual insurance channel increased by 78.5% as compared to the previous year. The short-term insurance premiums of group channel increased by 32.8% as compared to the previous year. The value of one year's new business increased by 18.6% as compared to the previous year. The embedded value increased by 73.7% as compared to the previous year, continuously enhancing value creation capabilities.

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:

Unit: RMB in millions, except for percentages

	For the Year Ended 31 December			
	2016		2015	
Health insurance products	**Amount**	**% of total**	Amount	% of total
Illness insurance	**544**	**2.4**	357	2.2
Medical insurance	**7,831**	**34.0**	5,932	37.0
Disability losses insurance	**85**	**0.4**	86	0.5
Nursing care insurance	**13,660**	**59.3**	8,768	54.7
Accidental injury insurance	**535**	**2.3**	457	2.9
Participating endowment insurance	**366**	**1.6**	432	2.7
Total	**23,020**	**100.0**	16,031	100.0

In terms of TWPs, the TWPs of illness insurance, medical insurance, disability losses insurance, nursing care insurance, accidental injury insurance and participating endowment insurance in 2016 amounted to RMB544 million, RMB11,713 million, RMB85 million, RMB14,813 million, RMB535 million and RMB366 million, respectively.

2. *Analysis by Channel*

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

Unit: RMB in millions, except for percentages

	For the Year Ended 31 December		
	2016	2015	(% of change)
Bancassurance	**11,006**	7,787	41.3
First-year business of long-term insurance	**10,724**	7,517	42.7
Single premiums	**10,599**	7,399	43.2
First-year regular premiums	**125**	118	5.9
Renewal business	**276**	265	4.2
Short-term insurance	**6**	5	20.0
Individual Insurance	**3,220**	1,769	82.0
First-year business of long-term insurance	**2,662**	1,398	90.4
Single premiums	**2,265**	1,175	92.8
First-year regular premiums	**398**	223	78.5
Renewal business	**461**	287	60.6
Short-term insurance	**97**	84	15.5
Group Insurance	**8,794**	6,475	35.8
First-year business of long-term insurance	**218**	18	1,111.1
Single premiums	**217**	17	1,176.5
First-year regular premiums	**1**	1	–
Renewal business	**4**	3	33.3
Short-term insurance	**8,571**	6,454	32.8
Total	**23,020**	16,031	43.6

In terms of TWPs, the TWPs from the bancassurance channel, individual insurance agent channel and group insurance sales channel amounted to RMB11,058 million, RMB3,414 million and RMB13,582 million respectively for 2016.

In the health insurance segment, individual insurance agent channel focused on developing its sales team to drive the development of regular premiums business. As of 31 December 2016, the number of sales agents for the health insurance segment was 27,389. The first year TWPs of new insurance policies for 2016 amounted to RMB2,818 per sales agent per month and the monthly new insurance policies were 0.68 per sales agent per month. The bancassurance channel actively seized business opportunities, continuously improved the professional skills, and actively conducted transformation of business structure, achieving satisfactory results for business development. The group insurance channel expanded in relation to government commission insurance business and its TWPs recorded rapid growth. Basic medical insurance processing business achieved a breakthrough, and the medical insurance funds under management reached RMB3,950 million. With regard to the commercial group insurance business, it continued to strengthen its innovation and further expand its business scale, which recorded a rapid growth in capacity per agent.

3. *Persistency Ratios of premiums*

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

	For the Year Ended 31 December	
Item	**2016**	2015
13-month premium persistency ratio(1) (%)	**81.2**	77.9
25-month premium persistency ratio(2) (%)	**72.7**	76.1

(1) The 13-month premium persistency ratio for a given year is the proportion of actual TWPs of long-term regular premium individual health insurance policies issued in the preceding year on the 13th month after they were issued and effective, to the actual TWPs of such policies in the year of their issuance;

(2) The 25-month premium persistency ratio for a given year is the proportion of actual TWPs of long-term regular premium individual health insurance policies issued in the penultimate year on the 25th month after they were issued and effective, to the actual TWPs of such policies in the year of their issuance.

4. *Financial Analysis*

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

Unit: RMB in millions, except for percentages

	For the Year Ended 31 December		
	2016	2015	(% of change)
Net earned premiums	**20,925**	14,351	45.8
Investment income	**1,782**	2,070	(13.9)
Other income	**93**	101	(7.9)
Total income	**22,995**	16,403	40.2
Net claims and policyholders' benefits	**20,479**	14,328	42.9
Handling charges and commissions	**666**	448	48.7
Finance costs	**456**	407	12.0
Other operating and administrative expenses	**1,322**	1,431	(7.6)
Total benefits, claims and expenses	**22,921**	16,608	38.0
Profit before tax	**74**	(205)	–
Income tax expense	**(71)**	69	–
Net profit	**3**	(136)	–

Net earned premiums

Net earned premiums of the health insurance segment increased by 45.8% to RMB20,925 million in 2016 from RMB14,351 million in 2015, mainly due to the growth of government commission insurance business and long-term commercial insurance as a result of favourable policy and market environment.

Investment income

Investment income of the health insurance segment decreased by 13.9% to RMB1,782 million in 2016 from RMB2,070 million in 2015. This was primary due to the poor performance of the equity market, capital market volatility and lower yield from new investment and reinvestment under the current low interest rate environment.

Other income

Other income of the health insurance segment decreased by 7.9% to RMB93 million in 2016 from RMB101 million in 2015. This was mainly due to the decrease in income from relevant charges of universal products.

Net claims and policyholders' benefits

Net claims and policyholders' benefits for the health insurance segment increased by 42.9% to RMB20,479 million in 2016 from RMB14,328 million in 2015, mainly due to the rapid growth in business resulting in an increase in withdrawal of premium reserves.

Handling charges and commissions

Handling charges and commissions of the health insurance segment increased by 48.7% to RMB666 million in 2016 from RMB448 million in 2015. This was mainly attributable to the rapid growth in the long-term commercial insurance business.

Finance costs

Finance costs of the health insurance segment increased by 12.0% to RMB456 million in 2016 from RMB407 million in 2015, which was mainly due to the increase in cost relating to interests credited to policyholders' deposits and investment amounts.

Net profit

Mainly due to the factors mentioned above, the health insurance segment turned a loss of RMB136 million in 2015 to a net profit of RMB3 million in 2016.

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 reporting periods indicated:

Unit: RMB in millions

	For the Year Ended 31 December	
	2016	2015
Jiangsu Province	**39,278**	34,287
Guangdong Province	**36,552**	32,396
Zhejiang Province	**30,219**	27,225
Shandong Province	**28,410**	24,050
Hebei Province	**25,285**	23,468
Sichuan Province	**24,791**	22,170
Beijing City	**23,507**	19,147
Fujian Province	**16,379**	15,863
Liaoning Province	**16,041**	14,208
Hubei Province	**16,024**	13,527
Other regions	**182,102**	160,310
Total	**438,589**	386,649

Asset management business

In 2016, the Group's asset management segment overcame certain adverse factors, such as significant high volatility in stock market, continuously low bond yield, and the frequent occurrence of credit risk events. It seized market opportunities to increase the development of strategic investment projects. On the basis of developing traditional equity and debt products, it actively promoted the innovations of financial products such as inclusive finance and agriculture and SME support, coordinated the development of major insurance business and expanded new channel for utilisation of insurance fund which helped maintain a stable investment return and effectively reduced investment risk. The equity and debt linked products of the asset management segment had a registered scale of RMB48,810 million, of which the registered equity products amounted to RMB36,000 million, ranking No. 1 in the industry. As of 31 December 2016, the scale of entrusted third-party and the issued insurance assets management products of the asset management segment amounted to RMB310,891 million.

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

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

Unit: RMB in millions, except for percentages

	For the Year Ended 31 December		
	2016	2015	(% of change)
Investment income	**452**	640	(29.4)
Other income	**1,316**	1,139	15.5
Total income	**1,768**	1,779	(0.6)
Finance costs	**2**	8	(75.0)
Other operating and administrative expenses	**1,039**	895	16.1
Total expenses	**1,040**	902	15.3
Profit before tax	**733**	865	(15.3)
Income tax expense	**(190)**	(230)	(17.4)
Net profit	**543**	635	(14.5)

Investment income

Investment income from the asset management segment decreased by 29.4% to RMB452 million in 2016 from RMB640 million in 2015, mainly due to the decrease in gain on disposal of existing assets.

Other income

Other income of the asset management segment increased by 15.5% to RMB1,316 million in 2016 from RMB1,139 million in 2015. This was mainly attributable to the increase in income from disposal of assets and income from management fee of financial products.

Finance costs

Finance costs for the asset management segment decreased by 75.0% to RMB2 million in 2016 from RMB8 million in 2015, primarily due to the decrease in interest expenses of financial assets sold under agreements to repurchase.

Net profit

As a result of the foregoing reasons, the net profit of the asset management segment decreased by 14.5% to RMB543 million in 2016 from RMB635 million in 2015.

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:

Unit: RMB in millions, except for percentages

Investment assets	As of 31 December 2016 Carrying amount	(% of total)	As of 31 December 2015 Carrying amount	(% of total)
Cash and cash equivalents	**46,729**	**5.8**	49,884	6.7
Fixed-income investments	**345,149**	**42.7**	393,503	53.0
Term deposits	**91,884**	**11.4**	148,097	19.9
Fixed-income securities	**240,531**	**29.8**	232,147	31.3
Government bonds	**14,597**	**1.8**	12,942	1.7
Financial bonds	**96,906**	**12.0**	107,578	14.5
Corporate bonds	**129,028**	**16.0**	111,627	15.0
Other fixed-income investments[1]	**12,734**	**1.6**	13,259	1.8
Equity and fund investments at fair value	**132,866**	**16.4**	109,663	14.8
Securities investment funds	**94,028**	**11.6**	77,755	10.5
Equity securities	**38,838**	**4.8**	31,908	4.3
Other investments	**282,994**	**35.0**	189,771	25.5
Subordinated debts and debt investment schemes	**109,714**	**13.6**	100,355	13.5
Investments in associates and joint ventures	**85,834**	**10.6**	53,308	7.2
Others[2]	**87,446**	**10.8**	36,108	4.9
Total investment assets	**807,738**	**100.0**	742,821	100.0

(1) Primarily consist of restricted statutory deposits and policy loans.

(2) Primarily consist of investment properties, derivative financial assets, equity investments stated at cost and asset management products.

(2) Investment income

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

Unit: RMB in millions, except for percentages

	For the Year Ended 31 December	
Item	**2016**	2015
Cash and cash equivalents	**581**	539
Fixed-income investments	**19,356**	20,905
Interest income	**18,785**	20,656
Net realized gains/(losses)	**554**	255
Net unrealized gains/(losses)	**17**	20
Impairment	**–**	(26)
Equity and fund investments at fair value	**5,089**	16,768
Dividend income	**5,062**	4,581
Net realized gains/(losses)	**1,621**	12,141
Net unrealized gains/(losses)	**(432)**	185
Impairment	**(1,162)**	(139)
Other investment income/(loss)	**18,435**	12,615
Total investment income	**43,461**	50,827
Total investment yield[1] (%)	**5.8**	7.3
Net investment yield[2] (%)	**5.7**	5.5

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

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

SPECIFIC ANALYSIS

(1) Liquidity Analysis

1. *Liquidity Analysis*

The liquidity of the Group was mainly derived from premiums, net investment income, cash from sales or maturity of investment assets and its own financing activities. The demand for liquidity primarily arose from insurance claims or benefits, surrenders, withdrawals or other forms of early termination of insurance policies, 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 flow from operating activities of the Group generally records a net inflow. At the same time, the Group maintained a certain proportion of assets with high liquidity to meet liquidity requirements. In addition, the Group could also obtain additional liquidity from the arrangements of securities sold under agreement to repurchase and other financing methods.

As a holding company, the Company's cash flows are mainly derived from the investment income arising from 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*

Unit: RMB in millions, except for percentages

	For the Year Ended 31 December		
	2016	2015	(% of change)
Net cash flows from operating activities	**23,831**	20,441	16.6
Net cash flows from investing activities	**(32,683)**	10,902	–
Net cash flows from financing activities	**5,447**	(20,915)	–

(2) Solvency

The Group calculated and disclosed the actual capital, core capital, minimum capital, comprehensive solvency margin ratio and core solvency margin ratio in accordance with relevant CIRC requirements.

Unit: RMB in millions, except for percentages

	As of 31 December 2016	As of 31 December 2015 (Unaudited)(1)	(% of change)
PICC Group			
Actual capital	**222,890**	198,150	12.5
Core capital	**172,358**	157,883	9.2
Minimum capital	**78,518**	67,143	16.9
Comprehensive solvency margin ratio (%)	**284**	295	Decrease of 11 pt
Core solvency margin ratio (%)	**220**	235	Decrease of 15 pt
PICC P&C			
Actual capital	**140,793**	121,478	15.9
Core capital	**113,864**	104,783	8.7
Minimum capital	**49,071**	42,824	14.6
Comprehensive solvency margin ratio (%)	**287**	284	Increase of 3 pt
Core solvency margin ratio (%)	**232**	245	Decrease of 13 pt
PICC Life			
Actual capital	**46,380**	45,314	2.4
Core capital	**39,257**	38,365	2.3
Minimum capital	**26,263**	20,935	25.5
Comprehensive solvency margin ratio (%)	**177**	216	Decrease of 40 pt
Core solvency margin ratio (%)	**149**	183	Decrease of 34 pt
PICC Health			
Actual capital	**6,695**	4,551	47.1
Core capital	**6,200**	3,883	59.7
Minimum capital	**3,107**	2,220	40.0
Comprehensive solvency margin ratio (%)	**215**	205	Increase of 10 pt
Core solvency margin ratio (%)	**200**	175	Increase of 25 pt

(1) Comprehensive solvency margin ratios and core solvency margin ratios of the Group, PICC P&C, PICC Life and PICC Health as of 31 December 2015 are calculated in accordance with the regulatory requirements under "Solvency II" and are not audited.

As of 31 December 2016, the comprehensive solvency margin ratio of the Group was 284%, representing a decrease of 11 percentage points as compared to that as of 31 December 2015, and its core solvency margin ratio was 220%, representing a decrease of 15 percentage points as compared to that as of 31 December 2015.

As of 31 December 2016, the comprehensive solvency margin ratio of PICC P&C was 287%, representing an increase of 3 percentage points as compared to that as of 31 December 2015, and its core solvency margin ratio was 232%, representing a decrease of 13 percentage points as compared to that as of 31 December 2015; the comprehensive solvency margin ratio of PICC Life was 177%, representing a decrease of 40 percentage points as compared to that as of 31 December 2015, and its core solvency margin ratio was 149%, representing a decrease of 34 percentage points as compared to that as of 31 December 2015; the comprehensive solvency margin ratio of PICC Health was 215%, representing an increase of 10 percentage points as compared to that as of 31 December 2015, and its core solvency margin ratio was 200%, representing an increase of 25 percentage points as compared to that as of 31 December 2015.

PROSPECTS

(1) Market Environment

In 2016, the PRC insurance market maintained a strong growth momentum, and the structural adjustment began to show positive results, effectively preventing risks and significantly enhanced the ability of insurance to improve the development of economy and people's livelihood. According to data published by the CIRC, the Original Premiums Income of the Chinese insurance industry in 2016 amounted to approximately RMB3.1 trillion, overtook Japan and ranked No. 2 in the world. It recorded an increase of 27.5% as compared to the same period last year, and the growth rate of the industry reached its highest since 2008. The Original Premiums Income of the P&C insurance companies and life and health insurance companies recorded increases of 10.0% and 36.8% respectively as compared to the same period last year. By the end of 2016, the total assets of the insurance industry in China amounted to approximately RMB15.1 trillion, representing an increase of 22.3% from the beginning of the year.

2017 will be an important year for the implementation of the "13th Five-Year" plan and a year of strengthened supply side structural reform. From the macro-economic perspective, the Party's Nineteenth National Congress will be held this year, and maintaining a stable political environment, macro-economy and social livelihood is the top priority for the entire Party and the nation. Under the guidance by the general tone of the central government of "making progress while maintaining stability", stable and neutral monetary policies and positive and effective fiscal policy will promote steady macro-economic development, and a series of policies relating to social security and people's livelihood will start to yield results. From the policy orientation perspective, the strengthening of the supply side structural reform will provide new room for the innovations and development of the insurance industry. For example, "insurance" was mentioned 29 times in the Main Objectives and Tasks for the Outline of the National 13th Five-Year Plan, which stipulated requirements for the acceleration of the re-insurance market, the improvement in agricultural insurance system, the expansion of two-way opening for the insurance industry, the making use of insurance's role in targeted poverty alleviation, and the acceleration of the establishment of the catastrophe insurance system. The opinions on promoting the reform and development in the production safety areas issued by the central government specify that "the government shall abolish the production safety risk deposit system, establish a sound production safety responsibility insurance system for mandatory implementation in eight high-risk industries including mining, and effectively make use of the function of insurance institutions of participation in risk assessment and management and accident prevention", which are beneficial for the market development of the high-risk industries. At the Central Rural Work Conference, it was announced that the government will focus on promoting agricultural supply side structural reform as the main theme of the rural and agricultural work, expressly require to accelerate rural financial innovations and further expand the coverage and depth of agricultural insurance services. As stated at the Central Economic Work Conference, significant progress shall be made in respect of the mixed ownership reform of state-owned enterprises in areas of the electric power, petroleum, railway, civil aviation, telecommunications and military industry to bring new investment opportunities for steady returns for the industry. From the prospective of industry development, in accordance with the central government's requirements for further strengthening the prevention of financial risks, the regulatory bodies will severely punish those crossing red line for risks, guide insurance institution to adhere to the principle of "Insurance provides protection first" and strengthen value development.

(2) Key Tasks

2017 will be a key year for the Company to promote the implementation of its 13th five-year plan. The Company will strengthen the efforts in reform and innovations by continuing to maintain steady growth, optimize structure, create values and prevent risks. It will enhance the effect of consolidation, continue to promote customer-oriented transformation, build a leading service ability and firmly promote the implementation of the 13th five-year plan of the Group by making progress and improving quality while maintaining stability. The Company will continue to enhance its thinking in a broader context, give full play to the functions of insurance, and foster its long-term competitiveness in serving economic and social development. It will intensify the integration of the Group, strengthen the Group's support, facilitate the sharing of resources, accelerate the development of a grassroots service platform, and continue to enhance the effect of consolidation. It will further promote innovations and development, establish a decision-making mechanism, talent mechanism and incentive mechanism that are conducive to innovation, and enhance the sustainable development of the Group. It will further promote development and transformation by expanding the development and room for value creation for the P&C insurance business, maintain firm determination and patience for the transformation of the life insurance business, and strengthen its development in key areas to ensure the sustainable development of the Group. It will strengthen internal control compliance and risk prevention, effectively prevent the accumulation of local risks in certain areas, the communication of internal risks and the contagion by external risks, and stick to the bottom line that no systematic risk shall occur. It will strengthen the development of execution power, improve various areas of reform including evaluation, report, monitoring and research of reform projects, enhance the survey feedback mechanism, establish an effective supervision and accountability mechanism, and firmly promote the implementation of key integration projects.

In 2017, the subsidiaries of the Company will continue to facilitate development and transformation in view of their own positioning and ensure the sustainable growth of the Group's value. PICC P&C will consolidate its existing advantages and build new advantages, strengthen the positive guidance of development goals, and seize the opportunities brought by the supply side structural reform to consolidate the leading position of its P&C business in the market. It will develop strong motor vehicle insurance business, accelerate the development of three areas of its motor vehicle insurance in respect of product innovation, pricing precision and claims management, strengthen the development of its own channels, and improve its value-added service system. It will strengthen its ability to serve in the broader context, carefully establish the platforms for insurance for agriculture, rural areas and farmers, social health insurance and poverty alleviation business, and explore the potential of its policy-supported business. It will develop an innovative "insurance + services" model and strengthen the capacity of its new business such as commercial non-motor vehicle insurance. PICC Life will coordinate the relationship among business development, structure optimization and value creation, and maintain its good development momentum. It will focus on protection against risks, adhere to the principle of "Insurance provides protection first", strengthen efforts into developing innovative products meeting the needs of customers and supplementing weak areas in the market. It will focus on regular premium business by effectively improving business development quality and embedded value and building a business structure which can survive the economic cycle and improve embedded value. It will focus on team building and continuously develop effective and high-performance employees, and improve the quality and capacity of its teams. It will focus on basic management, deepen the value-oriented assessment and appraisal system, and strengthen the support of front-line business by its headquarters. PICC Health will seize the policy opportunities brought by the implementation of the Outline of the Healthy China 2030 Program by focusing on improving economic performance first, pursuing innovative development, accelerating transformation, further enhancing its professional ability, strengthening value creation and continuing to improve profitability. It will further strengthen the promotion of its successful experience, and improve the development model of government commission business. It will accelerate the development of the health management platform, enhance interaction between various insurance business, speed up business structure adjustment and improve its sustainable development ability. The investment segment will stick to its innovative investment model to serve the implementation of national strategy and economic quality improvement and efficiency enhancement, and make full use of its role in supporting the overall profitability of the Group, development of insurance subsidiaries and industrial chain development. It will pay great attention to the coordination between investment management and production development in order to realize beneficial interaction between assets and liabilities. It will strive to seek the new investment opportunities brought by economic transformation and development, keep a close eye on the new areas of transformation and development including local government debt restructuring and conversion of debt into equity interest and mixed ownership reforms of state-owned enterprises, and seek stable returns through innovative models. It will attach strong importance to the coordination with other units of the Group, and leverage its professional advantage in investment management to facilitate the development of business chain such as elderly health and inclusive finance and the expansion of its overseas network.

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 RMB3,621 million in 2016.

PLEDGE OF ASSETS

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 2016, the carrying amount of relevant securities is set out in Note 33 to the consolidated financial statements.

BANK BORROWINGS

Besides the subordinated debts issued by the Group and the repurchase business disposed of in the investment business, the Group had no bank borrowings in 2016. Details of the subordinated debts are set out in Note 36 to the consolidated financial statements, and details of the bank borrowings are set out in Note 35 to the consolidated financial statements.

CONTINGENCIES

There were a number of outstanding litigation matters against the Group as of 31 December 2016. 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.

MAJOR ACQUISITIONS AND DISPOSALS

During the report period, the Group has no major disposals. With regard to the Group's major acquisitions, please refer to the section of "Significant Events" in this report.

Major Risk Factors

Major risks and uncertainties faced by the Group are listed below. Besides those listed below, there may be other risks and uncertainties.

Macro environment risk

Currently, foreign economic and financial situation is complex and changing, with interest rate hike by US Federal Reserve and impact of other factors, the persistently strong US dollar has resulted in a trend of capital outflow from the emerging markets. The domestic macroeconomy has still faced a relatively high pressure, the supply side reform will be further intensified, it will continue to promote the process of "cutting overcapacity, destocking, de-leverage, reducing cost, and strengthening weak links". Those changes in international and domestic economic situation will conduct to the insurance industry by various pipelines, which may affect the operations, management and investment of the Company. The Group attaches great importance to the study on macro policies and external economic conditions, actively conducts and responds to macro environment analysis, studies the impact on operations, management, investment and other aspects, and actively responds therefor.

Asset and liability matching risk

Currently, the insurance industry is facing the situation of combining effect of interest rate being driven by a relatively low market rate and the continuously downturn in capital market. Under the open market environment of determining interest rates, it is difficult to effectively reduce cost of liabilities, and at the same time, quality assets with high return in investment segment are relatively rare, thus increasing the difficulty in management of asset and liability matching. The Company has always been drawing high attention to the issue of asset and liability matching. We continue to strengthen asset allocation management, while actively implementing the business transformation of the liability side in order to prevent the matching risk of income and cost of asset and liability; we enhance the analysis and forecast of cash flows of asset and liability to avoid the periodic matching risk of asset and liability

Market risk

The fair value or future cash flows of a financial instrument held by the Group will fluctuate because of changes in market prices, which exposes us to market risk. Major market risks faced by us include interest rate risk, exchange rate risk and price risk. At present, the domestic capital market is facing uncertainties and continuously fluctuating interest rates and exchange rates. These factors will bring market risks for the Group. We use multiple methods to manage market risks, including the use of sensitivity analysis, Value-at-Risk ("VaR"), stress test, scenario analysis and other quantitative models to analyse market risks; the mitigation of market risks through a diversified investment portfolio; the implementation of investment risk budget management and tracking of risk control results. In addition, we control foreign exchange risk by controlling the foreign exchange balances, increasing the gain on investment in foreign currency assets etc depending on the changes in exchange rates. We also manage and hedge against our interest rate risk by adjusting our portfolio composition, managing, to the extent possible, the average duration and maturity of our portfolio and using financial derivatives, such as interest rate swaps.

Credit risk

When the counterparty fails to perform or cannot timely perform its contractual obligations, or the adverse changes on the credit of the counterparty may result in unexpected losses, it may expose the Group to credit risks. The implementation of cutting overcapacity and de-leverage process may further release credit risks. We consistently intensify risk warning and risk prevention of position-credit-products, increase dynamic tracking and monitoring of credit risks, conduct surprise special inspection of credit risks, and continuously improve the internal credit rating system to further enhance credit risk assessment level. We will increase the diversification of fixed income investment portfolios, develop a "white list" mechanism for counterparties in specific industries, strictly control insurance receivables and losses on bad debts, strengthen the credit management on the counterparty and reasonably control the subject, geographical and industrial concentration of the investment business to control credit risks.

Insurance risk

Insurance business is one of the main businesses operated by the group. The adverse deviations between the actual experiences and the expectations on the loss ratios, the happening of losses, the fees and the surrenders which result in insurance risks faced by the Group. Cost competition in the industry and occurrence of catastrophe may cause insurance risk for us. We assess and monitor insurance risks by using sensitivity analysis, stress test and other technologies. We also strengthen the management of the processes of the insurance business through the implementation of an effective product development and management system, a reasonable and sound assessment on reserves, prudent underwriting and claims handling processes, multi-layered reinsurance mechanisms, reasonable and prudent cost policies and other measures to control insurance risks.

Liquidity risk

For an enterprise primarily engaging in transact insurance business, the theory of probability is applied on insurance contracts to ascertain the likely provision and the period when such liabilities will require settlement. If it has insufficient funds or is unable to liquidate a position in a timely manner at a reasonable price to meet obligations as they become due, the Group will face liquidity risks. 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, strengthen the daily monitoring and analysis on cash flow, commence analysis of future cash flow forecast as well as the management of client expectation and provide renewal and transfer of policies and other services to mature customers to ensure that the Group is able to meet its payment obligations and fund its lending and investment operations on a timely basis.

Compliance risk

The China Insurance Regulatory Commission, the People's Bank of China and other PRC governmental authorities will conduct examinations on our compliance with PRC laws and regulations. The regulators may impose penalties and/or sanctions on us for non-compliant operations and management activities of the Group and our staff, which exposes the Group to compliance risks. We constantly establish compliance management mechanisms, strengthen inspections on, training and publicity on compliance, the establishment of a compliance culture as well as the development of internal control system of grassroots organisations. We conduct compliance self-inspection on a regular basis, strengthen audit and inspection and carefully carry out rectification to control compliance risks.

Directors, Supervisors, Senior Management and Employees

EXECUTIVE DIRECTOR

Mr. Wu Yan, aged 55, 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, PICC AMC since January 2008 and PICC Health since April 2014. 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.

NON-EXECUTIVE DIRECTORS

Mr. Yao Zhiqiang, aged 59, 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 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 59, 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. Hua Rixin, aged 57, is a Non-executive Director of the Company and a senior economist. Ms. Hua started her career in September 1977. From April 1981 to August 2002, she worked in four departments in the Yunnan Provincial People's Government General Office for 21 successive years, during which she worked as officer, deputy head and head of the reception department of the General Office, chief officer of fourth secretary office (politics, laws and race division), chief officer and assistant researcher of sixth secretary office (science, education, culture, health and sport division) and researcher of second secretary office (financial auditing, taxation and personnel of industry and commerce, economics and finance and tobacco division). From August 2002 to February 2004, she worked as the chief officer at the Yunnan branch office of China Development Bank. In February 2004, she worked in the Yunnan office of the CIRC and served successively as the head of general management bureau, chief officer of general office, member of CPC committee and assistant president, member of CPC committee and vice president, member of CPC committee, vice president and secretary of the disciplinary committee, deputy secretary to the CPC committee, president, secretary to the CPC committee and president. Since May 2015, she has been working as an inspector of the general office of the CIRC. Ms. Hua has been a Non-executive Director of the Company since October 2015. Ms. Hua did not hold any directorship in any other listed companies in the last three years. Ms. Hua graduated from the Adult College of Southwest Finance University in August 2004.

Ms. Cheng Yuqin, aged 55, is a Non-executive Director of the Company and an accountant. After graduation from university, she joined the Central Iron & Steel Research Institute under the Ministry of Metallurgy in July 1983. From December 1992 to June 1994, she worked in the Capital Checkup and Verification Steering Office under the State Council. From June 1994 to May 1998, she was the deputy head of the assessment department of the State-owned Assets Administration Bureau. From May 1998 to June 2007, she worked in the Ministry of Finance as a researcher of the asset and capital verification division under the assessment department, and a researcher of general division of the finance department. From June 2007, she worked successively in the insurance and equity management department, non-bank department, securities institution management department/insurance institution management department in Central Huijin Investment Company Limited. From April 2012 to December 2016, she has been working as the chief officer of insurance institution and equity management division of the securities institution department/insurance institution management department. She was designated as a director of China Reinsurance (Group) Corporation from June 2007 to December 2014. Ms. Cheng has been a Non-executive Director of the Company since October 2015. Ms. Cheng graduated from Zhejiang Jiaxing College in July 1983 and graduated from the postgraduate department of the Party School in July 2008.

Mr. Wang Zhibin, aged 48, is a Non-executive Director of the Company. He worked for the National Audit Office of the PRC from July 1994 to March 2001 and had served as an assistant researcher of the Secretary for Economy and Trade. He also worked at the National Council for Social Security Fund from March 2001 and successively served as the deputy director and director of the Risk Control Division of the Regulation and Supervision Department; served as deputy supervisor of the Regulation and Supervision Department since December 2004; served as deputy supervisor of the Investment Department since June 2007; served as inspector and deputy supervisor of the Investment Department since March 2011; served as inspector and deputy supervisor of the Securities Investment Department since August 2012; served as supervisor of the Regulation and Supervision Department since March 2016 till now. Mr. Wang has been a Non-executive Director of the Company since August 2016. Mr. Wang did not hold any directorship in any other listed companies in the last three years. Mr. Wang graduated from Southwestern University of Finance and Economics with a Master's degree in Economics; attended trainings between July and September in 2012 and between October and November in 2013 in Australia and at Principal Financial Group in US, respectively; he graduated from Southwestern University of Finance and Economics with a Doctorate in Economics in July 2007.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lau Hon Chuen, GBS, JP, aged 69, 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: China Jinmao Holdings Group Limited, Glorious Sun Enterprises Limited, Yuexiu Transport Infrastructure Limited, Yuexiu Property Company Limited, Joy City Property Limited (Formerly known as COFCO Land Holdings Limited), and Brightoil Petroleum (Holdings) Limited. He is also currently a director of OCBC Wing Hang Bank Limited (Formerly known as Wing Hang Bank Limited, delisted from HKEx with effect from 16 October 2014), Bank of China Group Insurance Company Limited, BOC Group Life Assurance Company Limited, Nanyang Commercial Bank Limited, OCBC Wing Hang Bank (China) Limited, Cinda Financial Holdings Co. Ltd 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), Wytex Limited (a nominee services company), Trillions Profit Nominees & Secretarial Services Ltd., Helicoin Ltd., Wyman Investments Ltd and Polex Ltd.. 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. Xu Dingbo, aged 53, 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 is currently 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), Shanghai Shyndec Pharmaceutical Co., Ltd (listed on the Shanghai Stock Exchange, stock code: 600420), Sany Heavy Industry Co., Ltd (listed on the Shanghai Stock Exchange, stock code: 600031), China Cinda Asset Management Co., Ltd. (listed on Hong Kong Stock Exchange, stock code: 01359), and as an independent director, chairman of the audit committee and connected transactions committee of Societe Generale (China) Co., Ltd. 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 76, 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. From April 2005 to January 2015, 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.

Mr. Lin Yixiang, aged 53, is an Independent Non-executive Director of the Company and a Senior Economist. In September 1989, he joined the Stock Department at Caisse des Dépôts and engaged in providing stock investment and analysis services. From August 1993 to June 1996, Mr. Lin served as a senior expert, deputy general director of the Research Information Department and the head of the securities trading surveillance system at the China Securities Regulatory Commission. From June 1996 to February 2001, he served as the vice president of Huaxia Securities Co., Ltd. Since March 2001 till now, he has served as the chairman and managing director of TX Investment Consulting Co., Ltd. From December 2005 to July 2015, he was an independent director of Taikang Asset Management Co., Ltd. Huarong Securities Co., Ltd. Yingda Asset Management Co., Ltd., Shanxi Taigang Stainless Steel Co., Ltd. (a listed company on Shenzhen Stock Exchange with stock code: 000825), Financial Street Holdings Co., Ltd. (a listed company on Shenzhen Stock Exchange with stock code: 000402), Guohe Fund Management Co., Ltd., Mr. Lin is currently an independent director of CITIC Trust Co., Ltd and Banque de lIndochine. Mr. Lin has served as the vice chairman of the Securities Association of China and the director of Securities Analysts and Investment Advisers Committee from July 2002, a qualification evaluation expert in the former Ministry of Labor and Social Security Annuity Fund Management Institution from November 2004, a committee member of the Expert Committee of China Securities Index from February 2006, the chairman of the Expert Committee on Shenzhen Stock Exchange Index from September 2009 and the chairman of the Association of Certified International Investment Analysts from June 2013 to June 2015. He has also served as the adjunct professor at the School of Economics of Peking University from January 2012 and the postgraduate instructor of Wudaokou Financial Graduate School of Tsinghua University since May 2012. Mr. Lin has been an Independent Non-executive Director of the Company since September 2015. In July 1983, Mr. Lin graduated from Peking University and obtained a bachelor's degree in Economics; in July 1985, he graduated from the Pierre Mendès-France University with a master's degree in Economics; and in October 1989, he graduated from the Paris West University Nanterre La Défense in France and received a PhD's degree in Economics.

Mr. Chen Wuzhao, aged 47, is an Independent Non-executive Director of the Company. Mr. Chen Worked in Zhonghua Accounting Firm from August 1995 to October 1998, his positions were certified public accountant and project manager. Since October 1998, he has been the lecturer and associate professor of the School of Economics and Management, Tsinghua University. From July 2007 to January 2017, he served successively as an independent director of Integrated Electronic Systems Lab Co., Ltd. (a listed company on the Shenzhen Stock Exchange, stock code: 002339), Shenzhen Development Bank Co., Ltd. (renamed as Ping An Bank Co., Ltd., a listed company on the Shenzhen Stock Exchange, stock code: 000001), CITIC 21CN Company Limited (renamed as Alibaba Health Information Technology Limited, a listed company on the Hong Kong Stock Exchange, stock code: 00241), Beijing Highlander Digital Technology Co., Ltd. (a listed company on the Shenzhen Stock Exchange, stock code: 300065), Nsfocus Information Technology Co., Ltd. (a listed company on the Shenzhen Stock Exchange, stock code: 300369), Beijing Huelead Audiovisual Technology Co., Ltd. (a listed company on the National Equities Exchange and Quotations, stock code: 835078), Beijing Miteno Communication Industrial Technology Co., Ltd. (a listed company on the Shenzhen Stock Exchange, stock code: 300038), GigaDevice Semiconductor (Beijing) Inc. (a listed company on the Shanghai Stock Exchange, stock code: 603986), Guizhou Broadcasting & TV Information Network Co., Ltd. (a listed company on the Shenzhen Stock Exchange, stock code: 600996), Beijing Andawell Science & Technology Company Ltd. Mr. Chen was the adjunct professor of Beijing National Accounting Institute from September 2010 to September 2012 and has been the committee member of the Enterprise Accounting Standards Professional Board of the Accounting Society of China since January 2009. Mr. Chen has been an Independent Non-executive Director of the Company since March 2017.Mr. Chen graduated from Zhongnan University of Finance and Economics (renamed as Zhongnan University of Economics and Law) with a Bachelor's degree in Economics in July 1992, graduated from the Finance Science Institute of the Ministry of Finance with a Master's degree in Economics in July 1995, and graduated from the School of Economics and Management, Tsinghua University with a Ph.D. in Management in July 2004. Mr. Chen is a non-practicing member of the Chinese Institute of Certified Public Accountants, and he holds the international certificate for certified internal auditor as well as the professional qualification certificate for self-assessment on internal control.

SUPERVISORS

Mr. Lin Fan, aged 57, 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 manager, 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: 00966). 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. Jing Xin, aged 59, is an Independent Supervisor of the Company, a Professor and a doctorial Tutor. Since his graduation from the Renmin University of China as a graduate student in July 1986, Mr. Jing stayed at the university to teach. Mr. Jing worked as the teaching assistant of the Faculty of Finance, lecturer, associate professor and professor of the Faculty of Accounting, director of the teaching and research department of Faculty of Finance, assistant to faculty director and assistant director. As a Senior Fulbright Scholar, he was assigned to visit and do research at Michigan State University from September 1995 to July 1996. Mr. Jing was the Commissioner of the Audit Commission, from December 2002 to December 2005, the Secretary of Party Committee and the associate dean of the Business School of Renmin University of China from December 2005 to December 2014, and has been the professor of the Faculty of Accounting in the Business School of Renmin University of China since December 2002. He was the independent director of Aeolus Tyre Co., Ltd. (a listed company on the Shanghai Stock Exchange, stock code: 600469) from November 2007 to October 2013, the independent director of Advanced Technology & Materials Co., Ltd. (a listed company on the Shenzhen Stock Exchange, stock code: 000969) from March 2008 to February 2014, and has been the independent director of Bank of China Investment Management Co., Ltd. since July 2011. Mr. Jing has been the council member of the Accounting Society of China since August 2008, the deputy director of China National MPAcc Education Steering Committee from May 2011 to May 2016, the supervisor of China Youth Development Foundation since December 2011, the council member of the Education Foundation of Renmin University of China since January 2015 and the consultant of the Government Accounting Standards Board of the Ministry of Finance since December 2015. Mr. Jing has been a Supervisor of the Company since March 2017. Mr. Jing graduated from the Renmin University of China with a Bachelor's degree in Economics in July 1983, graduated from the Renmin University of China with a Master's degree in Economics in July 1986 and graduated from the Renmin University of China with a Ph.D. in Economics in July 1995.

Mr. Xu Yongxian, aged 53, is a shareholder representative Supervisor of the Company and a Senior Economist. Mr. Xu joined the MOF in August 1990 and until December 2009, served successively as deputy director of the General Division of the Taxation Department, deputy director of the General Division of the Taxation Regulation Department, director of the General Division and director of Local Tax Division I of the Taxation Department, and deputy department level cadre of the Taxation Department of the MOF from September 2009 to December 2009. Mr. Xu has been a Supervisor of the Company since September 2009. Mr. Xu did not hold any directorship in any listed companies in the last three years. Mr. Xu graduated from the Central Institute of Finance and Economics (now known as Central University of Finance and Economics) in July 1987 with a Bachelor's Degree in Taxation and a Master's Degree in Finance in July 1990.

Ms. Yao Bo, aged 57, 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, served as the Secretary for Discipline Inspection Committee of PICC Financial Services from January 2017 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 (now known as People's Liberation Army Bethune Medical Officer School) 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.

Mr. Wang Dajun, aged 49, is a Supervisor representative of employees of the Company, a senior economist and Senior Enterprise Risk Manager. Mr. Wang joined The Company in August 1993 and once served as the deputy director of its general office for the agricultural insurance department; served as the assistant to the head of its communist party union working department in December 2000, the deputy secretary of its communist youth league committee in April 2001, the deputy head of its communist party union working department and the deputy secretary of the communist youth league committee in February 2003. Mr. Wang also served as the deputy general manager of the customer service management department of the PICC P&C in July 2003, the deputy general manager of its individual insurance marketing and management department in March 2004 and the deputy general manager of its accident and health insurance department in March 2006. In September 2007, he served as the deputy general manager of the business development department of the Company. In January 2008, he re-designated as the deputy general manager and deputy secretary of the communist party group of The People's Insurance Company of China (Hong Kong), Limited. In July 2009, he served as the deputy general manager of the risk management/legal and compliance department. Mr. Wang has been serving as the general manager of the risk management department of the Company since August 2013. Mr. Wang has been the Supervisor representative of the employees of the Company since March 2016. Mr. Wang did not hold any directorship in any listed companies in the last three years. He graduated from Northeast Agricultural Institute(now known as Northeast Agricultural University) in August 1993 with a Master's degree in Agricultural Science and graduated from Tsinghua University in December 2005 with a Master's degree in Business Administration.

SENIOR MANAGEMENT

Ms. Zhuang Chaoying, aged 58, is the Secretary for Discipline Inspection Committee 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 from December 2006 to July 2016 and an Executive Director from March 2014 to July 2016.She has been the Secretary for Discipline Inspection of the Company from December 2006 to September 2009 and since March 2012 to now. She also served as chairman of the board of supervisors of PICC Life from August 2007 to July 2016. 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 from November 2011 to September 2016 and a vice chairman from January 2014 to September 2016. 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. Xie Yiqun, aged 55, is the Vice President of the Company and a Senior Economist. Mr. Xie joined the Company in April 1980 and has worked as the deputy general manager of Wenzhou branch, the general manager of the Foreign Business Department of Zhejiang branch and the manager of Insurance Agency in Marseille, France until January 1995. From January 1995 to December 2001, he worked as the general manager of China Insurance Company S.A. Luxemburg, the general manager of China Insurance Company (UK) Limited, the general manager of China Insurance Singapore branch and China Taiping Insurance Group Singapore branch and the director of the Singaporean Institutional Reorganisation Preparatory Committee (新加坡機構重組籌備委員會). Mr. Xie worked as the Chairman of Taiping Life Insurance Co., Ltd. from December 2001 to November 2004. From August 2004 to October 2008, Mr. Xie worked as managing director and deputy general manager of China Insurance (Holdings) Company Limited. Meanwhile, he also worked as managing director of China Insurance H.K. (Holdings) Company Limited from April 2007. From October 2008 to May 2009, Mr. Xie worked as managing director and deputy general manager of China Insurance Company, Limited and China Taiping Insurance Group (HK) Company Limited. From May 2009 to March 2015, Mr. Xie worked as deputy general manager of China Taiping Insurance Group Co. and China Taiping Insurance Group (HK) Company Limited. Meanwhile, he worked as managing director from May 2009 to March 2012 and executive director from June 2013 to March 2015. Meanwhile, he also worked as chairman of Taiping Assets Management (HK) Company Limited, chairman of CIC Holdings (Europe) Limited, executive director and deputy general manager of China Taiping Insurance Holdings Company Limited (a company listed on the Stock Exchange of Hong Kong Limited with stock code: 00966), chairman of Taiping Pension Co., Ltd. (太平養老保險股份有限公司), chairman of Taiping Asset Management Company Limited, chairman of Taiping Securities (HK) Company Limited, general manager of Taiping Senior Living Investments Company Limited, chairman of Taiping Financial Holdings Company Limited, chairman of Taiping Investment Holdings Company Limited and chairman of Shenzhen Taiping Investment Company Limited (深圳太平投資有限公司). Mr. Xie has been working as the Vice President of the Company since March 2015. He also worked as chairman of PICC Hong Kong since June 2015 and chairman of PICC Financial Services since January 2017. Mr. Xie has been a vice chairman of National Internet Finance Association of China since September 2016. Mr. Xie graduated from Nankai University in July 1988 and from Middlesex University Business School, UK in June 2001 and obtained the degree of M.A.

Mr. Tang Zhigang, aged 52, 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 and served as chief of preparatory leading team for the PICC Pension Insurance Co., Ltd since January 2017. 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 59, 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 has served as a director of China Insurance Investment Company Limited since December 2015. Ms. Yu also worked as chairman of PICC Investment Holding and PICC Capital since January 2017. 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 46, is a Vice President 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, assistant to the president since March 2010 and vice president since June 2014. He has also served as a supervisor of PICC P&C since August 2006 to June 2015. He has been the chairman of the board of directors of Zhongsheng International Insurance Brokers Co., Ltd since November 2013, he was also appointed as the chairman of PICC Reinsurance since November 2016. 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 51, is an assistant to the President 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 to January 2015 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 50, 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 56, 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, general manager of the South Information Center from January 2010 to March 2015 and general manager of the Information Technology Department since March 2015. 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 52, 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 and non-executive director of PICC Capital since March 2014. Mr. Zhou has served as chairman of Financial & Accounting Committee of Insurance Association of China since June 2016. 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.

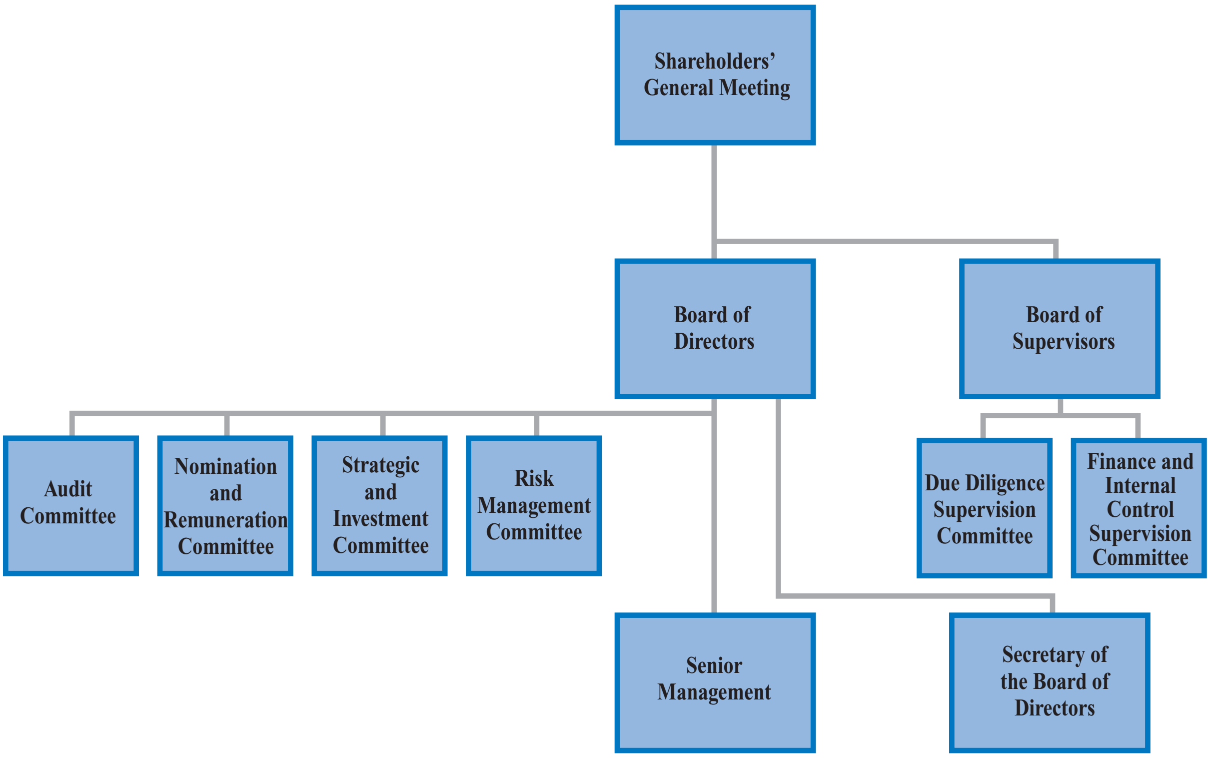
EMPLOYEES

As at 31 December 2016, the Group had a total of 204,570 employees, including regular employees and contract labor staff. For the year ended 31 December 2016, salaries paid to the employees by the Company and its subsidiaries were approximately RMB34.915 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 salary of employees are determined in accordance with market levels, employees' performance and actual situation of Company. 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.

The Company always abides by the relevant laws such as the "Company Law of the People's Republic of China", the "Insurance Law of the People's Republic of China", earnestly performs the requirements of the regulatory systems of the "Listing Rules", the "Guided Opinion on Standardizing the Corporate Governance Structure of Insurance Companies" and the Articles of Association, insists on the principles having good corporate governance, strives for enhancing the corporate governance standard continuously to ensure the stable development of the Company and to enhance shareholders' value.

The Company had complied with all code provisions of the Corporate Governance Code set out in Appendix 14 of Listing Rules in 2016, 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:



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 and issue 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 four general meetings, and the major matters put forward for consideration and approval at the meetings included:

- Considered and approved the reports of the Board and the Board of Supervisors for the year 2015.
- Considered and approved the resolution concerning the financial report of the Company for the year 2015.
- Considered and approved the resolution concerning the Company's profit distribution plan for the year 2015.
- Considered and approved the Company's investment budget for fixed assets in 2016.
- Considered and approved the engagement of auditor for 2016 financial report.
- Considered and approved the election of Mr. Wang Zhibin and Mr. Chen Wuzhao as directors of the Company to serve the Second Session of the Board of Directors.
- Considered and approved the election of Mr. Jing Xin as the supervisor of the Company to serve the Second Session of the Board of Supervisors.
- Considered and approved the proposal on the grant of a general mandate to issue Shares.
- Consider and approve the remuneration settlement scheme for Directors and Supervisors for the year 2014 and 2015.

SHAREHOLDERS' GENERAL MEETING *(continued)*

- Considered and approved the proposal on the establishment of The People's Pension Insurance Company of China Limited.
- Considered and approved the proposal on the absorption, merger and reorganisation plan of Beijing No. 88 West Chang'an Avenue Development Company Limited.
- Received the performance report of the Directors of the Company and performance report of the Independent Directors of the Company for the year 2015.
- Received the report on connected transactions and the execution of the connected transaction management system of the Company for the year 2015.

In addition, the circumstances regarding the renewal of the liability insurances for the Directors, Supervisors and senior management of the Company from 2015 to 2016 were heard.

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. The shareholders are also familiar with the detailed procedures to vote on resolutions by means of voting.

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 collectively 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. The relevant contact details are set out in "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. The Directors shall timely receive such notices and information before the meetings to enable them to make informed decisions.

THE BOARD *(continued)*

Composition

As at 31 December 2016, the Board comprised 11 Directors (see "Directors, Supervisors, Senior Management and Employees" in this annual report for the profiles of current Directors), consisting of one Executive Director, five Non-executive Directors and five Independent Non-executive Directors. Directors serve a term of three years and are eligible for re-election, but Independent Non-executive Directors shall not serve consecutively for more than six years.

The Board of Directors of the Company comprises the following directors:

Name	Position	Date of Appointment
Executive Director		
Wu Yan (Chairman)	Chairman, Executive Director	28 September 2009
Non-executive Directors		
Yao Zhiqiang	Non-executive Director	4 March 2014
Wang Qiao	Non-executive Director	4 March 2014
Hua Rixin	Non-executive Director	24 October 2015
Cheng Yuqin	Non-executive Director	24 October 2015
Wang Zhibin	Non-executive Director	5 August 2016
Independent Non-executive Directors		
Lau Hon Chuen	Independent Non-executive Director	19 October 2012
Xu Dingbo	Independent Non-executive Director	28 September 2009
Luk Kin Yu, Peter	Independent Non-executive Director	31 July 2015
Lin Yixiang	Independent Non-executive Director	25 September 2015
Chen Wuzhao	Independent Non-executive Director	2 March 2017

The changes in Directors of the Company during the reporting period were as follows:

On 24 June 2016, the Company held the 2015 general meeting of the Company for the purpose of selecting Mr. Wang Zhibin as the Non-executive Director for the second session of the Board. The qualification of Mr. Wang Zhibin as the Director of the Company had been approved by the CIRC on 5 August 2016, and at the same date, Mr. Li Fang resigned as the Non-executive Director of the Company due to the change of job with immediate effect.

On 27 July 2016, Ms. Zhuang Chaoying resigned as the Executive Director of the Company and a member of the Risk Management Committee of the Board due to business arrangement.

On 11 November 2016, Mr. Li Yuquan resigned as the Executive Director of the Company and a member of the Risk Management Committee of the Board due to his change of job.

On 29 December 2016, the Company held the third extraordinary general meeting for the purpose of selecting Mr. Chen Wuzhao as the Independent Non-executive Director of the second session of the Board. The qualification of Mr. Chen Wuzhao as the Independent Non-executive Director had been approved by the CIRC on 2 March 2017, and on the same day, Mr. Du Jian resigned as the Independent Non-executive Director pursuant to the relevant regulation on retired party and political leaders and cadres working part-time (holding office) in enterprises with immediate effect.

According to the announcement published by the Company on 6 March 2017, Wang Yincheng resigned as the Executive Director, Vice Chairman, President of the Company and ceased to perform his related duties.

For details of their biographies, see the "Directors, Supervisors, Senior Management and Employees" in the 2015 Annual report of the Company.

THE BOARD *(continued)*

Duties and Responsibilities

The Board shall 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 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.

Summary of Work Undertaken

During the reporting period, the Board convened four shareholders' meeting, submitted 14 resolutions to the shareholders' meeting for consideration and approval, and submitted three reports; convened eight meetings of the Board reviewed and approved 54 resolutions, received five reports. The main matters reviewed included: considering and approving the "Thirteenth Five-Year" development plan outline of the Company; nominating Mr. Wang Zhibin and Mr. Chen Wuzhao as the candidates of Directors for the second session of the Board; by-election of Chairman of the nomination and remuneration committee, the strategy and investment committee and the risk management committee for the second session of the Board; preparation of the annual operation plan, investment budget for fixed assets, the three-year rolling planning proposal of strategic asset allocation of the Group for 2016-2018 and the auditing plan; carried out annual appraisal of the directors and senior management; approved the 2015 annual report, announcement of annual results, assessment report on the implementation of the development plan, 2016 interim report, announcement of the interim results, the "Solvency II" solvency report for the first half of 2016; hired the auditors for the financial reports for the year 2016; reviewed the internal control, compliance management, risk control annual reports of the Company; made a comprehensive assessment of the corporate governance status of the Company of 2015; reviewed the resolution of the renewal of the liability insurance for directors, supervisors and senior management; approved adjustments to the organization structure; considered and approved amendments to the working rules of the audit committee and risk management committee of the Board; considered and approved the Administrative Measures on Reputation Risk of PICC Group, the Administrative Measures on Concentration Risk of PICC Group, the Administrative Measures on Insurance Risk of PICC Group, the Administrative Measures on Operation Risk of PICC Group, the Administrative Measures on Credit Risk of PICC Group and the Administrative Measures on Market Risk of PICC Group; considered and approved the proposal on transfer of assets and equity interest of PICC AMHK by the Company to PICC AMC; considered and approved the proposal on the issue of capital supplementary bonds by PICC P&C in 2016, directional capital increase of PICC Health, establishment of PICC Senior Care Limited by PICC Life, overseas issue of US dollar bonds by PICC Life, the establishment of The People's Pension Insurance Company of China Limited, the absorption, merger and reorganisation plan of Beijing No. 88 West Chang'an Avenue Development Company Limited; considered the resolutions on nomination of director of PICC Health and nomination of director of PICC Life, amendment to the articles of association of PICC Asset Management Company Limited, amendments to the articles of association of PICC Health Insurance Company Limited.

THE BOARD *(continued)*

Summary of Work Undertaken *(continued)*

During the reporting period, the Directors' attendance records of the shareholders' general meetings, the meetings of the Board and the meetings of committees under the Board were as follows:

Attendance in Person/attendance by proxy/scheduled attendance

	General Meeting		The Board		Board Committees			
Directors	General Meeting	Attendance rate	The Board	Attendance rate	Audit Committee	Remuneration Committee	Strategy and Investment Committee	Risk Management Committee
Executive Director								
Wu Yan	3/4	75%	8/8	100%	–	–	7/0/7	–
Non-executive Directors								
Yao Zhiqiang	4/4	100%	8/8	100%	5/0/5	–	7/0/7	–
Wang Qiao	4/4	100%	8/8	100%	–	4/1/5	–	3/0/3
Hua Rixin	4/4	100%	8/8	100%	–	–	–	3/0/3
Cheng Yuqin	4/4	100%	7/8	88%	–	–	4/0/4	–
Wang Zhibin	0/2	0%	3/4	75%	–	–	–	–
Independent Non-executive Directors								
Lau Hon Chuen	4/4	100%	8/8	100%	5/0/5	–	–	3/0/3
Xu Dingbo	3/4	75%	6/8	75%	5/0/5	5/0/5	–	–
Luk Kin Yu, Peter	0/4	0%	6/8	75%	4/1/5	3/2/5	–	–
Lin Yixiang	4/4	100%	7/8	88%	–	3/0/3	3/1/4	–
Chen Wuzhao	–	–	–	–	–	–	–	–
Resigned Directors								
Zhuang Chaoying	1/2	50%	4/4	100%	–	–	–	2/0/2
Li Fang	0/2	0%	1/4	25%	–	–	–	1/1/2
Li Yuquan	1/2	50%	5/6	83%	–	–	–	2/1/3
Du Jian	4/4	100%	8/8	100%	–	2/0/2	–	–
Wang Yincheng	2/4	50%	5/8	63%	–	–	6/1/7	–

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

- Convened four shareholders' general meetings;
- Considered and approved the "Thirteenth Five-Year" development plan outline of the Company;
- Considered and approved the operation plan and investment budget for fixed assets of the Company for the year 2016;
- Considered and approved the three-year rolling planning proposal of strategic asset allocation of PICC Group for 2016-2018;
- Considered and approved the audit plan of PICC Group for the year 2016;
- Considered and approved the resolutions concerning the financial report and the profit distribution plan for the year 2015;
- Considered and approved the resolution concerning the annual report and annual result announcement for the year 2015 as well as the interim report and interim result announcement for the first half of the year 2016 and the "Solvency II" solvency report for the first half of 2016;

THE BOARD *(continued)*

Summary of Work Undertaken *(continued)*

- Considered and approved the renewal of the liability insurances for the Directors, Supervisors and Senior Management of the Company;
- 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 2015;
- Considered and approved the resolution on adjustments to the organisation structure of the Company;
- Amended the working rules of the audit committee of the Board and the working rules of the risk management committee of the Board;
- Considered and approved the Administrative Measures on Reputation Risk of PICC Group, the Administrative Measures on Concentration Risk of PICC Group, the Administrative Measures on Insurance Risk of PICC Group, the Administrative Measures on Operation Risk of PICC Group and the Administrative Measures on Market Risk of PICC Group;
- Nominated the candidates of Non-executive Directors and Independent Non-executive Directors for the second session of the Board;
- By-elected chairman of the nomination and remuneration Committee, the strategy and investment committee and the risk management committee for the second session of the Board;
- Considered and approved the 2015 remuneration scheme for the Company's key personnel, the 2015 performance evaluation and incentive scheme for the Company's responsible officers and the 2015 remuneration scheme for the Directors and Supervisors;
- Considered the engagement of auditor for financial report for the year 2016;
- Considered and approved the proposal on transfer of assets and equity interest of PICC AMHK by the Company to PICC AMC;
- Proposed on the issue of capital supplementary bonds by PICC P&C in 2016, directional capital increase of PICC Health, establishment of PICC Senior Care Limited by PICC Life, overseas issue of US dollar bonds by PICC Life, the establishment of The People's Pension Insurance Company of China Limited, the absorption, merger and reorganisation plan of Beijing No. 88 West Chang'an Avenue Development Company Limited;
- Considered the resolutions on nomination of director of PICC Health and nomination of director of PICC Life, amendment to the articles of association of PICC Asset Management Company Limited, amendments to the articles of association of PICC Health Insurance Company Limited;
- Received the performance reports of the Directors for the year 2015 and performance reports of the Independent Directors of the Company for the year 2015, reports on the Company's connected transactions and the implementation of its connected transactions management system for the year 2015, report on specific auditing results of connected transactions of the Company for the year 2015, and internal audit work report of the Company for the first half of 2016.

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.

DIRECTORS *(continued)*

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 the 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 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 organised 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.

Wu Yan: attended various trainings and meetings related to the performance of duties by directors organised by the Group and gained a deeper understanding of domestic and foreign applicable laws and regulations, and regulatory requirements in respect of information disclosure, related party transactions, directors' continuous responsibilities and obligations, corporate governance, etc.

Yao Zhiqiang: attended various trainings and meetings related to the performance of duties by directors organised by China Business Executives Academy at Dalian, China Investment Corporation, China Europe International Business School, the Hong Kong Institute of Chartered Secretaries and the Group.

Wang Qiao: attended various trainings and meetings related to the performance of duties by directors organised by China Business Executives Academy at Dalian, China Investment Corporation, China Europe International Business School, the Hong Kong Institute of Chartered Secretaries and the Group.

Hua Rixin: attended various trainings and seminars organised by the Party School of China Investment Corporation, Cheung Kong Graduate School of Business, China Business Executives Academy at Dalian, China Europe International Business School, the Hong Kong Institute of Chartered Secretaries and the Group.

Cheng Yuqin: attended various trainings and meetings related to the performance of duties by directors organised by China Insurance Regulatory Commission, China Business Executives Academy at Dalian, China Investment Corporation, China Europe International Business School, the Hong Kong Institute of Chartered Secretaries and the Group.

Wang Zhibin: attended various trainings and meetings related to the performance of duties by directors organised by the Group and gained a deeper understanding of domestic and foreign applicable laws and regulations, and regulatory requirements in respect of information disclosure, related party transactions, directors' continuous responsibilities and obligations, corporate governance, etc.

Lau Hon Chuen: attended two lectures held by the Association of China-Appointed Attesting Officers for its members and various trainings and meetings organised by China Banking Regulatory Commission, Hong Kong Monetary Authority, Hong Kong Academy of Law, PwC, Deloitte, KPMG, OCBC Wing Hang Bank, Joy City Property Limited.

DIRECTORS *(continued)*

Training of Directors *(continued)*

Xu Dingbo: paid continuous attention to and conducted research on macro economy and corporate governance, hosted and participated in several academic seminars, and completed the trainings on relevant accounting standards, laws and regulations to be accepted by directors.

Luk Kin Yu, Peter: attended the quarterly trainings held by a bank for Independent directors and the quarterly trainings held by an accounting firm for Independent directors on topics of accounting, taxation, laws, compliance, information disclosure, duties and responsibilities of directors of listed companies, etc., mainly relating to issues in mainland China and Hong Kong and laws and regulations of the United States of America and Europe.

Lin Yixiang: attended various trainings and meetings organised by the Group and gained a deeper understanding of domestic and foreign applicable laws and regulations, and regulatory requirements in respect of information disclosure, related party transactions, directors' continuous responsibilities and obligations, corporate governance, etc.

Chen Wuzhao: attended the training in relation to the performance of duties by directors organised by Davis Polk & Wardwell and gained a deeper understanding of domestic and foreign applicable laws and regulations, and regulatory requirements in respect of information disclosure, related party transactions, directors' continuous responsibilities and obligations, corporate governance, etc.

Chairman/Vice 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. The Vice Chairman will perform the duties of the Chairman if the Chairman cannot or does not perform his duties. At date of this report, the Vice Chairman of the Company is now vacant until the election by the Board.

At date of this report, the President of the Company is now vacant until the appointment by the Board. 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. The Company's senior management team is the Company's execution body and assumes responsibilities to the Board. The powers Board and the senior management team are provided in accordance with the Company's articles of association. The senior management team's powers in relation to operation, management and decision-making are under the Board authorisation. Details of the duties and responsibilities of the Chairman, Vice Chairman and President are set out in the Articles of Associations.

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.

In February 2016, the Board considered and approved the resolution regarding amending the terms of reference of the audit committee to supplement requirements relating to risk management and internal control, in accordance to the new revisions made to certain rules in the Corporate Governance Code and Corporate Governance Report in Appendix 14 to the Listing Rules by the Hong Kong Stock Exchange. Please refer to the announcement on Terms of Reference of Audit Committee (amended in February 2016) issued by the Company on 3 February 2016. At the same time, the Board also considered and approved the resolution regarding amending the terms of reference of the risk management committee to improve the terms of reference of the risk management committee, including continuous monitoring, regular examination and assessment of the Company's risk management and internal control system. The amended terms of reference of the audit committee and the terms of reference of the risk management committee became effective from 2 February 2016.

BOARD COMMITTEES *(continued)*

Audit Committee

As at the end of the reporting period, the audit committee of the Board comprised four Directors including three Independent Non-executive Directors and one Non-executive Director, and an Independent Non-executive Director served as the Chairman.

Composition

Chairman: Xu Dingbo (Independent Non-executive Director)

Members: Lau Hon Chuen (Independent Non-executive Director),
Luk Kin Yu, Peter (Independent Non-executive Director),
Yao Zhiqiang (Non-executive Director)

Duties and Responsibilities

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

Duties and Responsibilities (continued)

The primary duties of the audit committee include, but are not limited to, the following: (1) review the Company's material financial and accounting policies and practices and their implementation, and supervise our financial operation; (2) evaluate audit controller's performance and make recommendations to the Board; (3) review the Company's fundamental internal audit system and make recommendations to the Board, approve the Company's annual audit plan and budget, supervise internal audit process and monitor its effectiveness; (4) regularly review and assess the soundness and effectiveness of our internal control system on an annual basis, and promptly consider and handle any major complaints in connection with our internal control system; (5) co-ordinate between the internal and external auditors, supervise the improvement and implementation of any significant findings arising out of the internal and external audit; (6) make recommendations to the Board on the appointment, removal, and remuneration of the external auditors, monitor the independence and objectivity of the external auditors as well as the effectiveness of the audit procedures according to applicable standards; (7) develop and implement policy on engaging external auditors to supply non-audit services; (8) ensure that the Board will provide a timely response to the issues raised in the external auditors' management letter; (9) review the annual audit reports prepared by our external auditors and other specific opinions, annual audited financial reports and other financial information that is required to be disclosed; give a judgment and report to the Board for review on the truthfulness, completeness and accuracy of the information in the aforementioned financial accounting reports; (10) identify the related parties of our Company and report to the Board and the Board of Supervisors, 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.

Auditor's fees

In 2016, total 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 RMB28.97 million for interim review and annual audit, and the fee in respect of special audit services like internal control for insurance funds was RMB2.55 million in aggregation. In addition, Deloitte also provided non-audit services to the Company and its subsidiaries for a fee of RMB9.51 million.

BOARD COMMITTEES *(continued)*

Audit Committee *(continued)*

Summary of Work Undertaken

During the year, the audit committee of the second session of the Board held five meetings, of which 13 proposal were reviewed and approved.

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

- Reviewed and considered the 2015 annual report, announcement of annual results, 2016 interim report and announcement of interim results;
- Reviewed and considered the Audit Plan of PICC Group for the Year 2016;
- Reviewed and considered the report on the Special Audit of Connected Transactions of the Company for the Year 2015;
- Reviewed and considered the Report on the Audit Work of PICC Group for the Year 2015;
- Reviewed and considered the report on Comprehensive Analysis of Audit Findings and Comprehensive Analysis of Corrective Actions of PICC Group for the Year 2015;
- Reviewed and considered the Summary Report on Special Audit of the Policy-oriented Agricultural insurance;
- Reviewed and considered the Summary Report on Special Audit of Serious Illness Insurance;
- Reviewed and considered the Summary Report on Special Audit of Claims and Key Fees Control of PICC Life's Business;
- Reviewed and considered the Audit Work Summary for the First Half of 2016 and the Work Plan for the Second Half of 2016 of PICC Group;
- Reviewed and considered the Report on Comprehensive Analysis of Audit Findings and Corrective Actions of PICC Group for the First Half of 2016.

Nomination and Remuneration Committee

As at the end of the reporting period, the nomination and remuneration committee of the Company comprised five Directors including four Independent Non-executive Directors and one Non-executive Director, chaired by Independent Non-executive Director. In March 2016, Mr. Lin Yixiang was elected as the Chairman of the nomination and remuneration committee, Mr. Du Jian no longer carrys out the duty as member of the nomination and remuneration committee. On 24 March 2017, Mr. Chen Wuzhao was elected as a member of the nomination and remuneration committee.

Composition

Chairman:	Lin Yixiang (Independent Non-executive Director)
Members:	Xu Dingbo (Independent Non-executive Director), Luk Kin Yu, Peter (Independent Non-executive Director), Chen Wuzhao (Independent Non-executive Director), Wang Qiao (Non-executive Director)

BOARD COMMITTEES *(continued)*

Nomination and Remuneration Committee *(continued)*

Duties and Responsibilities

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

The primary duties of the nomination and remuneration committee include, but are not limited to, the following: (1) analyze the standards and procedures for selection of Directors and senior management hired by the Board; review at least annually the structure, size and composition of the Board (in respect of skills, knowledge and experience among other things); and make recommendations to the Board regarding any proposed changes in order to comply with our corporate strategy; (2) 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; (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; (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; (12) review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct; (13) 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 our Company are listed, or 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 and the Board fully consider the board diversity (including but not limited to sex, age, cultural and educational background, 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. Therefore, on 24 June 2016, the Board approved the resolution to appoint Mr. Wang Zhibin to be Non-executive Director. On 29 December 2016, the Board approved the resolution to appoint Mr. Chen Wuzhao to be Independent Non-executive Director. Mr. Wang Zhibin has extensive insurance industry experience, Mr. Chen Wuzhao has extensive experience in accounting and management, they will bring benefits to the development of the business of the Company.

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.

For the remuneration of the senior management of the Company by band during the reporting period, please refer to Note 12 to the consolidated financial statements.

Summary of Work Undertaken

During the year, the nomination and remuneration committee of the second session of the Board held five meetings, of which 13 proposal were reviewed and approved.

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

- Reviewed the matter in relation to the nomination of Mr. Chen Wuzhao as candidate of the second session of the Board of the Company, with a recommendation made to and adopted by the Board;
- Reviewed the matters in relation to the nomination of candidates of the strategy and investment committee of the second session of the Board, and candidates of the risk management committee of the second session of the Board, with a recommendation made to and adopted by the Board;
- Reviewed and assessed the implementation of the performance appraisal and incentive scheme of the Company for the year 2015;
- Reviewed and assessed the compensation plan of the Company's key personnel for the year 2015;
- Reviewed and assessed the remuneration settlement scheme for Directors and Supervisors of the Company for the year 2015;
- Reviewed and considered the resolutions on nomination of equity directors of PICC Health and nomination of equity directors of PICC Life;
- Reviewed and considered adjustments to the organisation structure of the Company;
- Reviewed and considered the "Incentive and Restraint Mechanism" section of the corporate governance report for the year 2015;
- Reviewed the performance report of the Directors of the Company for the year 2015 and performance report of the Independent Directors of the Company for the year 2015.

Strategy and Investment Committee

As at the end of the reporting period, the strategy and investment committee of the Company comprised four Directors including one Executive Directors, two Non-executive Directors, one Independent Non-executive Director. Pursuant to the Articles of Association, the Chairman of the committee is served by the Chairman of the Board. In March 2016, Mr. Lin Yixiang and Ms. Cheng Yuqin were elected as members of the strategy and investment committee. In March 2017,Wang Yincheng resigned from the post of the member of the strategy and investment committee.

Composition

Chairman: Mr. Wu Yan (Executive Director)

Members: Lin Yixiang (Independent Non-executive Director), Yao Zhiqiang (Non-executive Director), Cheng Yuqin (Non-executive Director)

BOARD COMMITTEES *(continued)*

Strategy and Investment Committee *(continued)*

Duties and Responsibilities

The strategy and investment committee is mainly responsible for considering 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 as authorized by the Board.

Summary of Work Undertaken

During the year, the strategy and investment committee of the second session of the Board held seven meetings, of which 23 proposal were reviewed.

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

- Reviewed and considered the proposal on "Thirteenth Five-Year" development plan outline of the Company;
- Reviewed and considered the annual operation plan and investment budget plan for fixed assets of the Company for the year 2016;
- Reviewed and considered the three-year rolling planning proposal of strategic asset allocation of the PICC Group for 2016-2018;
- Reviewed and considered the corporate governance report of the Company for the year 2015;
- Reviewed and considered the report of the Board of Directors the Company for the year 2015;
- Reviewed and considered the corporate governance report of the Company for the year 2015;
- Reviewed and considered the final account report of the Company for the year 2015 and the related matters on profit distribution for the year 2015;
- Considered the evaluation report for the implementation of PICC Group's planning for the year 2015;
- Reviewed and considered the matters of general mandate for the issue of shares;
- Reviewed and considered the proposal on the issue of capital supplementary bonds by PICC P&C in 2016;
- Reviewed and considered the proposal on the amendments to the articles of association of PICC AMC;

BOARD COMMITTEES *(continued)*

Strategy and Investment Committee *(continued)*

Summary of Work Undertaken (continued)

- Reviewed and considered the proposal on directional capital increase of PICC Health;
- Reviewed and considered the resolution on the amendments to the articles of association of PICC Health;
- Reviewed and considered the proposal on the establishment of PICC Senior Care Limited by PICC Life;
- Reviewed and considered the proposal on the overseas issue of US dollar bonds by PICC Life;
- Reviewed and considered the proposal on the absorption, merger and reorganisation plan of Beijing No. 88 West Chang'an Avenue Development Company Limited;
- Reviewed and considered the proposal on the establishment of the People's Pension Insurance Company of China Limited; and
- Reviewed and considered the proposal on the transfer of equity interest of the PICC AMHK by the Company to PICC AMC.

Risk Management Committee

As at the end of the reporting period, the risk management committee of the Company comprised four Directors including three Non-executive Director and one Independent Non-executive Director, chaired by Independent Non-Executive Director. In March 2016, Mr. Li Yuquan, Ms. Hua Rixin and Mr. Li Fang were elected as members of the risk management committee. In July 2016, Ms. Zhuang Chaoying resigned from the post of the member of the risk management committee. On 5 August 2016, upon Mr. Wang Zhibin receiving approval from the CIRC to his qualification as a Director, Mr. Li Fang no longer carrys out the duty as the Director and member of the risk management committee. On 26 August 2016, Mr. Wang Zhibin was elected as a member of the risk management committee. In November 2016, Mr. Li Yuquan resigned from the post of the member of the risk management committee.

Composition

Chairman:	Lau Hon Chuen (Independent Non-executive Director)
Members:	Wang Qiao (Non-executive Director), Ms. Hua Rixin (Non-executive Director), Mr. Wang Zhibin (Non-executive Director)

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 semi-annual 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 as authorized by the Board.

BOARD COMMITTEES *(continued)*

Risk Management Committee *(continued)*

Summary of Work Undertaken

During the year, the risk management committee of the second session of the Board held three meetings, of which 13 proposal were reviewed.

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

- Reviewed and considered the amendments to the working rules of the risk management committee of the Board of the Company;
- Reviewed and considered the Administrative Measures on Reputation Risk of PICC Group;
- Reviewed and considered the Administrative Measures on Concentration Risk of PICC Group;
- Reviewed and considered the Administrative Measures on Insurance Risk of PICC Group;
- Reviewed and considered the Administrative Measures on Operation Risk of PICC Group;
- Reviewed and considered the Administrative Measures on Credit Risk of PICC Group;
- Reviewed and considered the Administrative Measures on Market Risk of PICC Group;
- 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 2015;
- Reviewed and considered the Risk Evaluation Report of the Company for the year 2015;
- Reviewed and considered the "Solvency II" solvency report for the year 2015;
- Reviewed and considered the "Solvency II" solvency report for the first half of 2016; and
- Inspected the semi-annual compliance report of the Company for the first half of 2016.

RISK MANAGEMENT AND INTERNAL CONTROL

The Company believes that good risk management and internal control plays an important role in the operation of the Company. The risk management structure runs through the Board, the operation management and all functional departments and covers all business sectors and branches at all levels of the Group. The Board is committed to the establishment of effective risk management and internal control system, as well as the implementation and supervision of risk management and internal control. The Board is ultimately responsible for the risk management, internal control, and compliance policy formulation of the Company. It makes decisions on risk management, internal control and compliance policies, approves the annual risk assessment report, internal control evaluation report and compliance report, and reviews the adequacy of resources, qualifications and experience of staff of the accounting and financial reporting function, and their training programmes and budget. Under the Board, it established: (1) an audit committee responsible for the supervision and evaluation of all kinds of matters including risk management and internal control compliance. Meanwhile, the Company and all its subsidiaries have established internal audit departments responsible for the regular supervision and evaluation of the work results in risks management and internal control and compliance; (2) a risk management committee 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 management of the Company organises and leads the daily operation of the risk management and internal control of the Company and is responsible for the design, implementation and monitoring of the risk management and internal control system. The Company has established a risk and compliance committee as a comprehensive coordination organization under the President's Office, 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 before and during, and organizing the implementation of, 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 devotes itself to the establishment of a complete risk management system and further proposed the overall target of advancing the establishment of an integrated risk management system. The integrated risk management system is mainly characterized by "three integrations", namely the integration of risk management policies, measurement instruments and the management and control platform within the Group. For internal control, the Company established an internal control system with full coverage, key focuses, mutual restrictions, based on the actual conditions of the company, cost efficiency and risk-oriented. The internal control system of the Company covers the whole process from decision-making, implementation to supervision across all businesses and matters of the companies and all subsidiaries of the Group. On such basis, it focuses on key business matters and industries with high risks. It conducts mutual restriction and supervision on the governance structure, the organization structuring, the division of powers and responsibilities as well as business processes while balancing the operation efficiency to adapt to the operation size, business scope, competition and risk standards of the Company. It also makes adjustments in time to achieve effective control with appropriate cost and effectively identify, appraise and manage risks and analyze, design and implement internal control. The purpose of the internal control of the Company is to reasonably guarantee the compliance of the operation and management, assets safety, the truthfulness and completeness of financial reports and relevant information, improve the operation efficiency and results and promote the realization of development strategies. Due to the inherent restrictions on the internal control, it can only provide reasonable guarantee to the realization of the above targets. The risk management and internal control systems of the Company are designed to manage rather than to eliminate the risk of failure to achieve business objectives. In addition, when the Board reviews the effectiveness of the implementation of risk management and internal management system, it only provides reasonable and non-absolute guarantees to the extent that there are no significant untruthful statements or losses.

The Company has, pursuant to the requirements of risk management and internal control standards such as the Basic Guidelines for Internal Controls of Enterprises No.7) issued by the MOF, CSRC, the National Audit Office, CBRC and CIRC and its supporting guidance, the Principal Rules for the Internal Control of Insurance Companies, the Guidelines for Risk Management of Insurance Companies (Trial) issued the CIRC and China Risk Oriented Solvency System Regulations and the Listing Rules of the Stock Exchange as well as other regulations on risk management and internal control, perfected the risk management and internal control system, executed risk management and internal control with governing documents such as the Internal Control Administration Measures, the Internal Control Manual, the Internal Control Evaluation Manual, the Provisional Measures for Risk Management, and guiding major subsidiaries to promote the construction of risk management and internal control systems in accordance with the foregoing supervisory regulations.

RISK MANAGEMENT AND INTERNAL CONTROL *(continued)*

In 2016, the Company completed the risk appetite and economic capital construction projects. In the construction of the risk management environment, the Company established a risk appetite system framework of the Group, which provided a more effective professional instrument in unifying the risk policies of the whole Group and laid a foundation for the subsequent implementation of the risk appetite management. For risks estimation and analysis, it introduced economic capital as a quantitative instrument and prepared the "risk capital budget", which further breaks down risk responsibilities to major subsidiaries and relevant departments of the Company. In terms of the collection and reporting of information, the Company completed the plan on the phase-II construction of the risk and basic material platform and improved the system on risk monitoring indicators within the platform, which further expanded the coverage of the collection of risk information and basic materials, optimized the risk management information system and enhanced the quality and results of the risks monitoring.

In 2016, the Company continued to strengthen the establishment of the risk management and internal control system, actively promoted the connection and operation which comply with China Risk Oriented Solvency System issued by the CIRC, improved the special risk management system and working mechanism, increased the efforts in key risk management and controls, optimized the risk management information system, reinforced the risk data collection and management mechanism, promoted the construction of internal control system of grassroots units, conducted special internal control appraisal and audit on the use of insurance capitals, established professional training course system on risk management and internal control and organised trainings to fully improve the risk management and internal control of the Company. PICC P&C improved the overall risk management system, updated the risk appetite system, conducted risk appraisal and measurement and risks investigation and rectification in key areas, enhanced the routine management and control on key risks, steadily advanced all work on overall risk management, continuously conducted self-appraisal on internal control, established a compliance inspection mechanism, promoted the establishment of the grass-roots internal control system at the municipal and district and county levels and continuously increased the capacity of internal control on the effective support of operation management. PICC AMC adopted the risk management model "covering all businesses and processes with the participation of all employees". With the technical means before, during and after the event and the internal control specialist mechanism covering all businesses, it guaranteed the effective compliance and implementation of the investment guidelines of the clients and various systems of the Company. PICC Health strengthened the benchmarking against the regulation requirements on China Risk Oriented Solvency System issued by the CIRC and preliminarily completed the establishment of the full risk management system and mechanism with the solvency as the core. It set the basic strategies of the company on risk management, completed the establishment of the risk appetite system, conducted the benchmarking of the establishment of the internal control system of grass-roots institutes against the pilot work, advanced the "Two Strengthen, Two Restrain" inspection on self rectification and the risks investigation on key positions and reinforced the efforts in internal supervision and audit. Through the establishment of the annual risk investigation mechanism and the internal risk appraisal and internal defects rectification mechanism, PICC Life firmly integrated the risk investigation, internal control inspection and operation and management and effectively prevented and resolved the company's operational risks. PICC Investment continuously improved the rules and systems of the Company, perfected the business process and focused on the display of "three defense functions" in risk management. It gradually adopted the requirements on risk management into the whole process for business and operation management and reinforced the efforts in supervision and accountability in the appraisal on risk management and internal control and all risks are under the controllable range.

The Company fully conducted the risk appraisal and internal control assessment covering the whole Group in 2016. The Board believed that during the reporting period, relevant management and control measures are sufficient to guarantee the actual demands of the Company in risk management. For internal control, all of the risk management and internal monitoring system of the Company covering all key aspects, including financial monitoring, operation monitoring and compliance monitoring are sufficient and effective. There are no factors affecting the conclusion on the appraisal of the effectiveness of the internal control during the period from the base date of the internal control appraisal report to the publication date of the internal control appraisal report. The company was not aware of any matters may have direct effects on the quality of the operation activities or the achievement of the targets of financial reports and the operation of the internal control system of the Group is sufficient and effective.

RISK MANAGEMENT AND INTERNAL CONTROL *(continued)*

In 2016, the risk management system of the Company was sound and effective and it did not identify any significant risks affecting the normal operation of the Company. The Company continued to strengthen the frequency and effectiveness of the dynamic risks monitoring and established the annual, quarterly and other regular risk appraisal mechanisms. The management of the Company continues to conduct analysis and appraisal on strategic risks, liquidity risks, insurance risks, market risks, credit risks, operation risks, and reputation risks, unique risks of the Group as well as other key risks and consistently strengthened the frequency of risks monitoring. Besides the annual reporting to the Board, it conducts overall appraisal on significant risks every quarter and monitors sensitive risk indicators every month and collects, summarizes and reports significant risk matters every week. Meanwhile, the Company conducts special appraisal and reports on risks of overseas affiliates or branches and overseas investments. The Company has established a complete set of risk appraisal mechanism for the above risks, which will guarantee the effectiveness of risk management.

The internal audit organizations of the Company and all subsidiaries prepare the annual audit plans based on the regulatory requirements and risk appraisal results every year, form a unified annual audit plan of the whole Group after summarizing and submit it to the Board of the Group for deliberation and approval. The internal audit organizations of the Company report the implementation of the audit work and the implementation of the annual audit plan to the Board every half year and appropriately adjust the focus of the audit supervision based on the deliberation opinions of the Board. In 2016, the internal audit organizations of the Company conducted full self-inspection, random inspection on key aspects and following-up rectification focusing on corporate governance risks, product risks, capitals use risks, solvency risks, assets and liabilities mismatching risks, cross-market, cross-region and cross-industry transfer risks, mass incidents and reputation risks as well as the risks on the compliance of business operation and effectiveness of the internal control in key industries. It also conducted audit on the performance of economic responsibilities of operation managers and managers of investment, infrastructure, financial and other key positions during their employment period at all branches of the Group. It conducted special inspection on policy agricultural insurance, critical illness insurance, documents and seals, the use of insurance capitals, procurement, information system and other key industries.

For information disclosure, the Company Independently established the information disclosure office based on the working requirements after listing in 2013 and established a professional team leading the information disclosure work of the whole Group. It coordinated and established the information disclosure working team in all subsidiaries and the communication and coordination mechanism among relevant parties of information disclosure. The Company developed the Significant Information Reporting and Disclosure Procedures, the Interim Measures on the Management of Information Disclosure Matters, the Interim Measures on the Management of Internal Reporting of Significant Information, the Interim Measures on the Management of the Registration and Filing of Persons Knowing Inside Information and relevant rules and systems on information disclosure covering the whole Group, specifying major contents, the responsibilities of all parties, the procedures for registration, filing and disclosure, discipline and other matters in the information disclosure by companies under the Group and requiring relevant persons to perform corresponding procedures in reporting the inside information to the information disclosure management departments of the Group in time prior to the publicity of inside information. After receiving the report on inside information, the information disclosure management departments of the Group shall study and analyze the information and make plans on information disclosure and officially submit to the stock exchange for publication after being reviewed by the secretary of the Board and approved by the leaders of the Company.

BOARD OF SUPERVISORS

During the year, the Board of Supervisors had adhered to laws and performed its duties of supervision, the supervision of the performance of the respective duties by the Directors and senior management, stressed on carrying out special investigation and research, made proposals with respect to the clarifying strategic positioning of the Group, deepening the transformation and development and the prevention of business risks to the Board and the operation management.

BOARD OF SUPERVISORS *(continued)*

Composition

As of the reporting date, the Board of Supervisors was composed of:

Chairman: Mr. Lin Fan

Supervisors: Mr. Xu Yongxian (shareholder representative Supervisor), Mr. Jing Xin (Independent Supervisor), Ms. Yao Bo (employee representative Supervisor), Mr. Wang Dajun (employee representative Supervisor)

The Board of Supervisors of the Company established the duty performance and due diligence supervision committee, and the financial and internal control supervision committee. Mr. Lin Fan serves as chairman of the duty performance and due diligence supervision committee, and Mr. Xu Yongxian and Ms. Yao Bo are members of such committee. Mr. Jing Xin serves as chairman of the financial and internal control supervision committee, Mr. Xu Yongxian serves as vice chairman of such committee, and Mr. Wang Dajun is a member of such committee.

On January 29, 2016, Mr. Wang Dajun was elected as the employee representative Supervisor of the second session of the Board of Supervisors of the Company at the fifth meeting of the second session of the Board of Supervisors of the Company. China Insurance Regulatory Commission approved Mr. Wang Dajun to serve as a Supervisor on March 22, 2016. Ms. Li Yongmei retired from the same date as the employee representative Supervisor of the Company. For details, please refer to the "Directors, Supervisors, Senior Management and Employees" of the Company's 2014 report.

Mr. Yu Ning, the Independent Supervisor, passed away on 1 June 2016.

On 29 December 2016, Mr. Jing Xin was elected as the Independent Supervisor of the Company at the general meeting of the Company. The qualification of Mr. Jing Xin as the Supervisor of the Company had been approved by the CIRC on 2 March 2017.

On 24 March 2017, Mr. Jing Xin and Mr. Wang Dajun was elected as chairman and a member of the financial and internal control supervision committee respectively at the nineteenth meeting of the second session of the Board of 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, or is unable to, perform its duty of convening and presiding over the shareholders' general meeting; (6) submit proposal 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 operations, 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 seven meetings and considered, reviewed and received 38 resolutions. The duty performance and due diligence supervision committee convened two meetings, the financial and internal control supervision committee convened two meetings. The attendance of meetings was as follows:

Name	Lin Fan	Yu Ning	Yongxin	Xu Yongmei	Li Yao Bo	Wang Dajun
Attendance in person/scheduled attendance	7/7	3/3	7/7	1/1	4/7	6/6
Percentage of attendance in person	100%	100%	100%	100%	57.1%	100%
Attendance by proxies/scheduled attendance	0/7	0/3	0/7	0/1	3/7	0/6
Percentage of attendance by proxy	0%	0%	0%	0%	42.9%	0%

See the section "Report of the Supervisors" for the work of the Board of Supervisors for the year.

AMENDMENT OF THE ARTICLES OF ASSOCIATION

The Company did not amend the Articles of Association during the year.

INVESTOR RELATIONSHIP

After publishing the results for the year 2015 and the interim results for the year 2016, the Company timely communicated with investors with respect to the Company's operation result and the 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 visits of investors, participating in large investor forums, and timely replies to telephone and email enquiries. 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, mail 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) provide regularly updated information of the Company.

Report of the Board of Directors

The Board presents its report and audited financial statements of the Company and its subsidiaries for the year ended 31 December 2016. During the reporting period, there have been no significant changes to the scope of the Company's principal activities.

BUSINESS REVIEW

A review of the Group's business during the year, description of future business development, and description of possible risks and uncertainties that the Group may face, are set out in Chairman's Statement and Management Discussion and Analysis of the Annual Report. Management Discussion and Analysis section also contains financial highlights of the Group, and using financial key performance indicators to analysis the Group's performance during the year. Events which happened subsequent to the balance sheet date and have significant effect to the Group set out in Note 50 "Events After the Reporting Period" to the Consolidated Financial Statements. In addition, description of the environmental protection policies of the Group, relationship with major customers and employees and compliance with relevant laws and regulations which have significant effect to the Group, set out in Corporate Social Responsibility, Report of the Board of Directors and Significant Events of the Annual Report.

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 Consolidated Financial Statements and Notes.

The net profit of the Company for the year 2016 as presented in the audited financial statements amounted to RMB3.093 billion. Pursuant to the Articles of Association and other relevant provisions, after appropriation of 10%, or RMB309 million of the net profit in the financial statements as statutory reserve, the distributable profit realized for the year was RMB2.784 billion. The Board has recommended a payment of cash dividend of RMB0.337881 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 RMB1,433 million, subject to the approval of shareholders at the annual general meeting to be held on 23 June 2017 (Friday). Subject to approval, the final dividend is expected to be paid on or around 22 August 2017 (Tuesday) to the holders of H shares whose names appear on the H share register of members of the Company on 5 July 2017 (Wednesday).

The above proposal will be put forward to the annual general meeting for consideration and approval. The specific arrangements regarding dividend and its distribution will be disclosed separately in the circular for the annual general meeting.

WITHHOLDING AND PAYING INCOME TAX ON THE DIVIDENDS PAID FOR OVERSEAS INDIVIDUAL SHAREHOLDERS AND NON-RESIDENT ENTERPRISE SHAREHOLDERS

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 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號檔廢止後有關個人所得稅徵管問題的通知(國稅函件[2011]348號)), the Announcement of Publishing the Administrative Measures on Preferential Treatment Entitled by Nonresidents Taxpayer under Tax Treaties (Announcement of State Administration of Taxation [2015] No. 60) (《關於發佈<非居民納稅人享受稅收協定待遇管理辦法>的公告》(國家稅務總局公告2015年第60號)), other relevant laws and regulations and other regulatory documents, the Company shall, as a withholding agent, withhold and pay income tax on the dividends paid including individual income tax for the Overseas individual shareholders and enterprise income tax for non-resident enterprise shareholders in respect of the final dividend for the year 2016 to be distributed to them. The details of withholding and paying income tax on the dividends paid for overseas individual shareholders and non-resident enterprise shareholders will be disclosed separately in the circular for the annual general meeting.

FINANCIAL HIGHLIGHTS

A summary of the results, assets and liabilities of the Group for the past five 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 28 and Note 27 to the consolidated financial statements respectively. As at 31 December 2016, the Group did not own any properties for investment purposes or held for development and/or sale 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 2016. The share capital of the Company as at 31 December 2016 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	616,319,000	1.45%
Other H-share shareholders	H shares	8,109,915,000	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 repurchased, disposed of or redeemed any listed securities of the Company and its subsidiaries.

RESERVES

Details of reserves of the Group are set out in Note 42 to the consolidated financial statements, and the consolidated statement of changes in equity.

DISTRIBUTABLE RESERVES

As of 31 December 2016, the distributable reserves of the Company amounted to RMB11,429 million.

CHARITABLE AND OTHER DONATIONS

Charitable and other donations made by the Company and its subsidiaries in 2016 were RMB82.0546 million, of which the donations made by the Company were RMB10.5 million.

EQUITY-LINKED AGREEMENT

During the reporting period, the Company did not enter into any equity-linked agreement.

MAJOR CUSTOMERS AND EMPLOYEES

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. The contribution of the Company's business of any single customer is insignificant to the overall business of the Company. Premium income from the top five customers accounted for not more than 30% of the total premium income of the Company and its subsidiaries. As at 31 December 2016, there were approximately 204,600 employees of the Company. In order to ensure its stable development in the long run, the Company has attached great importance to its relationship with all customers and employees. The business and financial condition of the Company have not relied on particular customer(s) or employee(s).

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. The list of Directors of the Company and changes in directors are set out in "Corporate Governance Report – The Board" 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 and their connected entities entered into any service contracts with the Company or its subsidiaries which could not be terminated within one year or without payment of compensation other than statutory compensation.

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

HIGHEST PAID INDIVIDUALS

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

INDEMNITY FOR DIRECTORS

During the reporting period and up to the date of this annual report, there had been no permitted indemnity provision nor permitted indemnity provision that remained effective for the benefits of Directors or directors of subsidiaries. For the period from December 2015 to December 2016, the Company had purchased insurance as appropriate for Directors against legal liabilities arising from performance of their duties. Such insurance policies are governed by PRC laws.

DIRECTORS' AND SUPERVISORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

During the reporting period, none of the Directors or Supervisors of the Company had any material interest, whether directly or indirectly, in transactions, arrangements or contracts of significance 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 principal business of the Company.

CONTRACTS OF SIGNIFICANCE WITH CONTROLLING SHAREHOLDER

During the reporting period, the Company and its subsidiaries did not sign any contracts of significance (including those for the provision of services) with the controlling shareholder.

INTERESTS IN SHARES HELD BY DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

As at 31 December 2016, 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 far as the Directors of the Company are aware, as at 31 December 2016, the following persons (other than the Directors, Supervisors and senior management of the Company) had an interest or short position in the shares or underlying shares of the Company which is required to be disclosed to the Company pursuant to Sections 2 and 3 of Part XV of the SFO, or required to be recorded in the register 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 *(Note 3)*	Percentage of total issued shares *(Note 4)*
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%

Name of shareholder	Capacity	Number of H shares	Nature of interests	Percentage of total issued H shares *(Note 5)*	Percentage of total issued shares *(Note 4)*
American International	Beneficial owner	1,113,405,000	Long position	12.76%	2.62%
NSSF *(Note 1)*	Beneficial owner	616,319,000	Long position	7.06%	1.45%
BlackRock, Inc. ("BlackRock") *(Note 2)*	Interest of controlled corporation	523,988,998	Long position	6%	1.24%

Notes:

1. NSSF, as the beneficial owner, holds 602,279,000 H shares. In addition, it holds 14,040,000 H shares as asset manager and nominee via State Street Global Advisors ("SSGA"). Accordingly, NSSF is deemed to be interested in the aforementioned H shares.

2. BlackRock is deemed to be interested in 523,988,998 H shares through its controlled entities, namely, Trident Merger, LLC, BlackRock Investment Management, LLC, BlackRock Holdco 2, Inc., BlackRock Financial Management, Inc., BlackRock Holdco 4, LLC, BlackRock Holdco 6, LLC, BlackRock Delaware Holdings Inc., BlackRock Institutional Trust Company, National Association, BlackRock Fund Advisors, BlackRock Capital Holdings, Inc., BlackRock Advisors, LLC, BlackRock International Holdings, Inc., BR Jersey International Holdings L.P., BlackRock Cayco Limited, BlackRock Trident Holding Company Limited, BlackRock Japan Holdings GK, BlackRock Japan Co., Ltd., BlackRock Canada Holdings LP, BlackRock Canada Holdings ULC, BlackRock Asset Management Canada Limited, BlackRock Australia Holdco Pty. Ltd., BlackRock Investment Management (Australia)Limited, BlackRock (Singapore) Holdco Pte. Ltd., BlackRock Asia-Pac Holdco, LLC, BlackRock HK Holdco Limited, BlackRock Asset Management North Asia Limited, BlackRock Group Limited, BlackRock (Netherlands) B.V., BlackRock Advisors (UK) Limited, BlackRock International Limited, BlackRock Luxembourg Holdco S.à r.l., BlackRock Investment Management Ireland Holdings Limited, BlackRock Asset Management Ireland Limited, BLACKROCK (Luxembourg) S.A., BlackRock Investment Management (UK) Limited, BlackRock Fund Managers Limited, BlackRock Life Limited, BlackRock UK Holdco Limited, BlackRock (Singapore) Limited, and BlackRock Asset Management (Schweiz) AG.

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

Notes: (continued)

3. As at 31 December 2016, the total issued domestic shares of the Company was 33,697,756,583 shares.

4. As at 31 December 2016, the total issued shares of the Company was 42,423,990,583 shares.

5. As at 31 December 2016, the total issued H shares of the Company was 8,726,234,000 shares.

Save as disclosed above, as of 31 December 2016, the Company is not aware of any other persons having any interest or short positions in the shares or underlying shares of the Company, that is 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, 18.85% 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 core connected person of the Company pursuant to Rule 1.01 of the Listing Rules as AIG is an close 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 regard AIG as part of "the public" when considering whether the Company complies with the requirement of minimum public float of 18.44%. 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 46 to the consolidated financial statements "Related Party Disclosures" for particulars of the related party transactions defined under International Financial Reporting Standards; such transactions are not connected transactions or continuing connected transactions as defined under Chapter 14A of Listing Rules.

CORPORATE GOVERNANCE

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

AUDIT COMMITTEE

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

AUDITORS

As reviewed and approved by the shareholders' meeting in 2015, the Company engaged Deloitte Touche Tohmatsu CPA LLP and Deloitte Touche Tohmatsu as the auditor of the Company for the financial statements for the year ended 31 December 2016, prepared in accordance with the PRC Accounting Standards for Business Enterprises (2006) and the International Financial Reporting Standards respectively. There are no changes in of the Company's auditors in the past three financial years.

By the order of the Board
Chairman
Wu Yan

During the year, all members of the Board of Supervisors of the Company have, in accordance with the policies of the CPC Central Committee and the decisions of the CPC Committee of the Group, the requirements of laws, regulations and the Articles of Association, focusing on the overall work requirements, earnestly fulfilled duties of supervision and played the role of “facilitating supervision”, which promoted the scientific development of the Company 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

During the year, the Board of Supervisors convened seven meetings and considered and received 38 resolutions, it made suggestions and recommendations to the relevant resolutions, and gave feedback to the Board and the operation team of the management, with details as follows:

First, on 18 March the eleventh meeting of the second session of the Board of Supervisors was convened, the “Resolution of the Board of Supervisors 2015 Work Report” and the “Resolution of the Board of Supervisors 2016 Work Plan” were considered and approved; five resolutions, namely the “Resolution of business plan for the year 2016”, the “Resolution of fixed assets investment budgets for the year 2016”, the “Resolution of three-year rolling plan on strategic allocation of the asset of the Group for 2016 to 2018”, the “Resolution of audit plan of the Group for the year 2016” and the “Resolution of targeted capital increase in PICC Health”, were received.

Second, on 27 March the twelfth meeting of the second session of the Board of Supervisors was convened, three resolutions, namely the “Resolution of the 2015 final accounts”, the “Resolution of the 2015 profit distribution proposal” and the “Resolution of the results announcement for the year 2015 and the annual report for the year 2015”, were considered and approved; the “Resolution of the establishment of The People’s Pension Insurance Company of China Limited” was received.

Third, on 26 April the thirteenth meeting of the second session of the Board of Supervisors was convened, nine resolutions, namely the “Resolution of the Payment Capability Report for the Group in China Risk Oriented Solvency System for the year 2015”, the “Resolution of the engagement of auditor for the financial report for the year 2016”, the “Resolution of the assessment report on the implementation of the plan for the year 2015”, the “Resolution of the 13th five-year plan of The People’s Insurance Company (Group) of China Limited”, the “Resolution of the corporate governance report for the year 2015”, the “Resolution of the risk assessment report for the year 2015”, the “Resolution of the assessment report on internal control for the year 2015”, the “Resolution of the compliance report for the year 2015” and the and the “Resolution of assessment and evaluation report for performance of supervisors for the year 2015”, were considered and approved; six resolutions, namely the “Resolution of the performance report of directors for the year 2015”, the “Resolution of the performance report of independent directors for the year 2015”, the “Report on the Company’s connected transactions and the implementation of its connected transactions management system for the year 2015 and internal transaction assessment”, the “Report on specific auditing results of connected transactions of the Company for the year 2015”, the “Resolution of the Audit Work Reporting for the year 2015 and Segment Analysis of Audit Issues and Comprehensive Rectification Report for the year 2015” and the “Resolution of Issuing Capital Supplementary Bonds by PICC P&C in 2016”, were received.

Fourth, on 26 August the fourteenth meeting of the second session of the Board of Supervisors was convened, two resolutions, namely the “Resolution of the interim report and interim result announcement for the year 2016”, and the “Resolution of the Payment Capability Report for the Group in China Risk Oriented Solvency System for the first half of 2016”, were considered and approved; five resolutions, namely the “Resolution of the adjustments to the organisation structure of companies under the Group”, the “Resolution of the establishment of PICC Senior Care Limited by PICC Life” the “Resolution of Internal Audit Work Report for the first half of 2016”, the “Resolution of the compliance report for the first half of 2016” and the “Risk management and internal control summary of the Company for the first half of 2016”, were received.

Fifth, on 22 September the fifteenth meeting of the second session of the Board of Supervisors was convened, the “Resolution of adopting merger and reorganization plans by Beijing No. 88 West Chang’an Avenue Development Company” was considered and approved; the “Resolution of issuing US dollar-denominated bonds overseas by PICC Life” was received.

Sixth, on 31 October the sixteenth meeting of the second session of the Board of Supervisors was convened, the “Resolution of nominating Jing Xin as an independent supervisor candidate” was considered and approved.

Seventh, on 29 December the seventeenth meeting of the second session of the Board of Supervisors was convened, the “Resolution of the transfer of equities of PICC AMHK to PICC AMC” and the “Resolution of the report on the implementation of resolutions of the board of directors and supervisors in 2016”.

During the year, as required by their duties, the Diligence Supervision Committee of the Board of Supervisors convened two meetings, the Finance & Internal Control Supervision Committee convened two meetings, they proposed their opinions on the related resolutions, and reported to the Board of Supervisors. Besides, the Board of Supervisors convened four special meetings and two communication meetings and conducted special study and communication on relevant matters.

Carefully conducting supervision on the performance of duties by directors and senior management

During the year, the Board of Supervisors carefully conducted supervision on the performance of duties by directors and senior management according to the provisions of the Articles of Association and the Interim Measures on the Supervision on the Performance of Duties by Directors and Senior Management by the Board of Supervisors based on the actual conditions of the Company.

During the year, the Supervisors attended four shareholders’ meeting, seven Board meetings on-site, and ten meetings of Board committees, participated in the resolution communication meetings 11 times. The Supervisors also attended the annual work meeting and semi-annual work meeting, quarterly “One-to-one” operational trend analysis meeting and other operation management meetings. Through attending and participating in such meetings, it conducted effective supervision on relevant decision-making process and the performance of duties by the Board and the management, proposed monitoring opinions in time and gave full display to the functions of the Board of Supervisors in corporate governance.

The Board of Supervisors carefully deliberated the annual performance reports of directors and independent directors. While deliberating and studying relevant proposals, it made feedbacks to the Board and management on matters concerned by the Board of Supervisors. It communicated and learnt about the implementation of the resolutions of the shareholders’ meetings and board meetings in 2016 and formed a supervision report. Meanwhile, the Board of Supervisors listed promoting the implementation of the strategic development plans of the Group as a focus in the supervision on performance of duties.

Actively performing the supervision on finance and internal control of the Company

During the year and in accordance with the Articles of Association and the Interim Measures on the Supervision on the Finance and Internal Control of the Company by the Board of Supervisors, the Board of Supervisors vigorously performed the supervision duties and continued to focus on the finance, internal control and risk management of the Company. It focused on the business and significant investment of the Company, attached great importance to risks prevention and made suggestions.

For financial supervision, it mainly includes: the review and analysis of financial reports. While recognizing the results of the Company, it also pointed out existing risks and deficiencies. It focused on the communication with the auditors, paid attention to the points of risk spotted by auditors in the audit and made relevant suggestions based on the analysis on the sources of profit of major subsidiaries. It emphasized the importance of the implementation and analysis on budget and advised the Company to strengthen and improve the budget implementation and management. It also concerned about the capital use efficiency of the Group and made suggestions to the capital injection of subsidiaries and other significant matters. It also focused on the effects of the changes in the policies on the “China Risk Oriented Solvency System” and the “replacement of business tax with value-added tax” on the business development and operation management of the Company.

For the supervision on internal control, it mainly includes: conducting deliberation and study on the report on annual and interim compliance, internal control, risks and other supervision, continuously learning about the establishment, improvement and operation of the internal control and risk management of the Company and made suggestions. It regularly listens to the work report on internal audit and the report on the special audit conducted by the inertial audit department and conducts study and analysis on the problems spotted in internal audit. It also regularly conducts analysis on the Monthly Report on Risks Monitoring of the risk management department and advises the management and all business units to pay more attention.

Conducting special inspection

During the year, the Board of Supervisors completed the Research Report for Progress of Transformation of PICC Life. It recognized the active progress made by PICC Life, pointed out problems to be concerned and made relevant suggestions on the detailed transformation plans and unified awareness of PICC Life, strengthening the construction of professional ability and strengthening the guideline and supports to the transformation of life insurance by the PICC Group. It joined relevant functional departments of the Group in conducting special inspection on materials and information and conducted interviews and communication with PICC Health and PICC Life to learnt about the preparation of standards on the information about subsidiaries (information about clients in particular), the unified management, the establishment of systems and comprehensive exploration.

Besides, the Board of Supervisors also sent the related Supervisors to attend the joint commission of directors and supervisors of the Company. They went to conduct investigations in the subsidiaries in Qinghai, Ningxia and Hainan, understood the operation management, business development of the fundamental entities, and made relevant suggestions.

Reinforcing the construction of the Board of Supervisors

During the year, the Board of Supervisors continued to strengthen the establishment of its organizations, systems and abilities and promoted the standard and professional performance of duties by the board of directors and supervisors to improve the efficiency in performance. Based on the regulatory requirements, it seriously conducted the corporate governance in the replacement of Ms. Li Yongmei by Mr. Wang Dajun as the employee supervisor and the nomination of Mr. Jing Xin as an independent supervisor candidate as well as relevant information disclosure work. It led the study and preparation of the Guideline on the Work of the Board of Supervisors of Insurance Companies under the China Insurance Regulatory Commission. It studied the cooperative work mechanism between subsidiaries and the parent under a group structure, the financial supervision of the board of supervisors in the financial industry, internal supervision and due performance and supervision experiences and explored the improvement of relevant supervision working mechanism based on the actual conditions of the Company. The Board of Supervisors also emphasized on building the capabilities of the Supervisors in terms of their performance of duties, it encouraged the Supervisors to actively take part external training organised by the CIRC, China Business Executives Academy at Dalian and the Hong Kong Institute of Chartered Secretaries, etc. and it arranged several internal focusing on specified topics to share with others and enhanced its professionalism.

PERFORMANCE OF THE SUPERVISORS

Based on the work of the attendance of all members of the Board of Supervisors in the shareholders' meeting, meetings of the Board of Supervisors and its committees, their attendance in the meetings of the Board of Directors and its committees, the participation in special meetings, communication meetings, special investigation and research organised by the Board of Supervisors, provision of advice and recommendation on such matters etc., the Board of Supervisors is of the view that during the year 2016 the performance of all members of the Board of Supervisors met expectations, their performance reached the corporate requirements of the Company Law and other laws and regulations and the Articles of Association, they were able to perform the duties as Supervisors earnestly and diligently, facilitate the scientific development of the Company actively, and they effectively safeguarded the interests of the shareholders and the Company.

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 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 2016 have been audited by Deloitte Touche Tohmatsu Certified Public Accountants LLP and Deloitte Touche Tohmatsu respectively in accordance with the corresponding independent auditing standards, which have issued audit reports with standard and clean opinions.

Material investments, issue of bonds and acquisitions of assets

With respect to material investments, issue of bonds and acquisitions of assets during the reporting period, the Board of Supervisors is 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 report

During the reporting period, the management of the Company attached great importance to the construction of an internal control system. The Company established a complete, reasonable and effective internal control system, which enhanced the level of internal control management. The Board of Supervisors had considered the Internal Control Evaluation Report of the Company for the year 2016, and had no objection to such report.

Implementation of resolutions adopted at the shareholders' meetings and resolutions of the Board and the Board of Supervisors

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. The Board of Supervisors supervised the implementation of resolutions and proposals of the Board and the Board of Supervisors, and considered that the operation management was able to implement the relevant resolutions earnestly, paid better attention to and adopted such proposals.

In 2016, abiding by the mission and responsibility of "People's Insurance serves the People", the Group has proactively synchronized with the overall development, improved the management of key topics on sustainable development, realised the mutual promotion between economic benefits and social benefits and the joint growth in the returns to the shareholders, customers, employees and society. The contents about environment and society in this report cover all entities and the scope of business operation of the Group.

ABOUT ENVIRONMENT

Use of energy

For the use of energy, the Group advocated green office and actively promoted the office automation at the branches of all levels to reduce paper consumption. It established the automatic office system, the core business system, the operation and maintenance management platform, the electronic statements system and other electronic platforms to practice paperless office. It explored new paths in organising meetings and providing materials for meetings in electronic and energy-saving ways to improve the office efficiency and reduce the consumption of office paper. It also implemented double-sided printing and copying policies. While continuously advancing the construction of electronic assistance platforms, the Group also sped up in the application of electronic policies, electronic invoices and other digital instruments to build a full electronic products sales and service model, effectively improve the technical services on insurance, reduce the operation cost and save energy and reduce energy consumption. It set up a concept of green purchase, set requirements on energy consumption and gave preference to equipment with low energy consumption. While maintaining the procurement of products with the best cost performance, it focused on environment-friendly products.

The Group actively advanced the management of energy-saving and consumption reduction in workplace to reduce the operation cost of properties and the consumption of water, electricity and other resources. In the office at the No. 88 Building of the companies under the Group (commonly used by the headquarters of the Group and five subsidiaries), it controlled the air-conditioning system in the office area with the temperature not higher than 20˚C in winter and no lower than 24°C in summer. It is prohibited to open the external windows of the properties in the cooling and heating seasons to reduce the losses of cooling and heating energy. During the peak heating season in 2016 to 2017 (December to January), it saves an energy of 3,587.2 GJ compared to the corresponding period last year. For the utilization of water resources, it adopted energy-saving sanitary appliance to reduce washing water while maintaining normal use. Based on the actual monitoring data on humidity, it adjusted the set value of humidification to reduce the waste of water resources. It also installed equipment for the treatment of recycled water and recycling of the domestic waste water, condensate water, sewerage from equipment and other recyclable water for toilets and urinals. For the use of electricity, employees were urged to turn off lights before they leave. For the energy-saving policies on the use of elevators, the Group uses LED energy-saving lights in elevators. Depending on the demand of usage, the No. 88 Building of the Group suspends the use of certain elevators during non-rush hours, which saved 130KWH every day.

Emissions treatment

Major emissions of the Group mainly include the emissions from the consumption of electricity, diesel, gasoline and natural gas. As a result, the focus on emission reduction is energy consumption, improving the energy efficiency and reducing the emission of greenhouse gases through energy-saving management. According to the Circular on Further Regulating the Inspection on Emission and Strengthening the Environmental Supervision and Administration on Vehicles issued by the Ministry of Environmental Protection and other relevant regulations, the Group regularly conducts the inspection on emissions from official business vehicles. It strictly follows the national standards on the emission of vehicles and other relevant laws and regulations to promote the use of clean energy and eliminate old vehicles based on relevant regulations. It encourages its employees to hold video or telephone conferences to reduce carbon emission and energy consumption from business travelling.

The Group adopts a classification treatment for its waste-management policy. For domestic waste, construction waste and kitchen waste, it conducts classification treatment at the front end and qualified plants conduct professional treatment at the back end to strictly follow relevant national standards on environmental protection. The sewage generated from the routine operation is treated after entering the sewage pipeline to ensure zero emission of sewage. For the waste information technology equipment and desktop office computer equipment, they will be delivered to designated institutes for destruction with the internal approval of the Group after technicians confirmed that they cannot be used any more. During the claim handling of vehicle insurance estimation, it fully promoted low-carbon repairing and gradually established a low-carbon repairing network at the headquarters and provincial levels and developed ancillary management and control functions of the information technology system. For the dangerous waste generated from the repairing, it shall be treated by qualified environmental authorities.

Dealing with environmental changes

The Group continued to expand the pilot on insurance for huge disasters and conducted pilot insurance on huge disasters in Shenzhen, Ningbo and Sichuan to explore the establishment of a multi-layered risks sharing mechanism. Based on the risks on local disasters and the characteristics of the economic development, the Group explored effective guarantee models against landslide, mudslide, floods, forest fire and other disasters. As the executive agency of the insurance community on huge earthquake disasters for urban and rural residents in China, the Group and Shanghai Insurance Exchange actively promoted the establishment of a platform for the operation of the community and an operation environment for the huge disaster insurance system on earthquake for residential houses. PICC P&C achieved the implementation of policies for huge disaster insurance on earthquake across China.

For climate changes, it conducted innovation in products and services. It developed the weather index insurance with the insurance subject covering rubber, tea, flocks and herds, aquatic products, rice and other agricultural products, which effectively compensated the losses of farmers on natural disasters. It has established a continuous operation mechanism in disasters alarming information services and disasters and losses prevention services for clients. Through the alarming information services on meteorology and hydrology, it guided and urged branch institutes to conduct disaster prevention to reduce the rate of accidents and the compensation. It firstly explored the real-time monitoring materials on urban waterlogging base on the Internet of Things in the domestic insurance industry and conducted immediate alarming and disasters and losses prevention services. It actively developed environmental pollution liability insurance and vigorously provided environmental risks appraisal services to improve the environmental risks management ability of enterprises.

ABOUT LABOR PRACTICE

Employees' interests

The Group continuously improved the construction of the system on the guarantee of employees' interests. It consistently enhanced and improved the enterprise democratic management system with the employee representative committee as the basic form and achieved the 100% establishment of the employee representative committee at the legal person level of the Group. It steadily advanced the collective contract and collective negotiation system on remuneration and provided same remuneration to same positions to provide employees with equal paths and platforms for occupational development. During the year, the Group had a total of 204,570 employees (including regular employees and contract labor staff) and 646,197 marketing staff. Among the regular employees, the proportion of male and female employees is 51:49. 33,261 employees are newly recruited, 8,334 employees resigned, 285 employees were dismissed and 1,657 employees retired. It earnestly follows relevant national laws and regulations, contributed basic social insurance and housing provident funds for all regular employees and provided complete welfare and treatment guarantees. The Group also carefully abides to relevant national laws and regulations on working time, annual leaves, labor protection and family planning to safe-guard the interests of employees on statutory leaves and holidays. The relevant requirements on shortest notification period having possible significant effects on employees in the current policies and employment contracts of the Group are consistent with the Employment Contract Law.

Health and safety

The Group strives to provide a healthy and safe working environment for employees. Following the provisions the Labor Law and other relevant national and local policies and based on the actual conditions of the Company, it conducted various safety education and promotion activities and regularly conducted emergency exercises to enhance the safety awareness of employees. It arranged commercial supplementary medical insurance plans and employer liability insurance plans, collective accident and serious illnesses insurance and other plans to provide guarantees to the physical safety of employees during the working period. Based on the characteristics of the employees' positions and job nature, it provides employees with the necessary labor protection in routine work. The Group also concerns about the physical health of employees and regularly organizes health check-up for employees. It gradually advanced employees health management services, established health archives and conducted green treatment, health management, pharmacy and diet, TCM treatment and other services. It also balances work and life of employees and explores the implementation of the EAP (Employee Assistance Program) plan. It conducts flexible working arrangement on breastfeeding female employees and sick employees with bad physical conditions and assisted employees to balance family and working responsibilities.

Development and training

Focusing on improving the ability of employees, the Group takes full advantage of various quality training resources and makes innovation in training methods to fully improve the business capacities and comprehensive quality of employees on the whole. It smoothened the growth channels for employees and established management, occupation and technical orders and other diversified promotion channels to promote the multi-communication among employees from different levels, positions and departments. It continuously advanced the training mechanism of provincial tour lecturers group to improve the standard and regulatory grass-roots trainings. Through the deep cooperation with national education and training platforms, it conducted high-quality teaching programs. It promoted the sharing of quality training plans and resources within the system to establish an information base of internal and external faculties of the Group. It encouraged employees to participate in professional qualification tests, special trainings and quality overseas training plans to improve the business ability of employees. With the competition on making contributions as a platform, it conducted labor competitions and exercises on positions to build a stage for employees to display their intelligence and wisdom. In 2016, the headquarters of the Group held 36 training activities and organised employees to participate in more than 80 external quality training plans covering more than 2,500 employees at the headquarters of the Group, which effectively promoted the establishment of a learning team at the headquarters of the Group.

Employees care

The Group deeply practiced the “people-oriented” concept and continuously promoted the establishment of a harmonious enterprise. It strictly abides by the currently valid national laws and regulations on labors without minor labors or forced labors. It vigorously advocated the corporate culture of “People-oriented and Strive Forward in Harmony” and fully respected and recognized the value and contribution of employees. On the celebration of the 67th anniversary of the Company, it granted the PICC commemorative medal to 2,046 employees who have worked in the Group for over 25 years. It actively advocated the spirit of model workers and labors and organised the symposium on advanced teams and labor models with the theme of “Keeping to Original Aspiration and Devoting to Contribution”. It energetically trained models for competition to display the talents of the most beautiful employees. It honored one “National Labor Day Medal”, ten “National Financial Labor Day Medal”, two “National Financial Labor Day Award” and one “National Financial Pioneer”. It actively implemented the enterprise annuity system to share the development results of the Company with employees. The Group continuously conducted care and assistance to employees and improved the system on the management of care foundation and the archives of poverty-stricken employees to expand the coverage of assistance. It also conducted heart-warming activities through various channels at different levels. In 2016, it visited 17,516 front-line employees and 2,670 poverty-stricken employees.

ABOUT OPERATION PRACTICE

Products and services

Following the advancement of the innovation-driven development strategy of the state, the Group actively promoted innovation and continuously improved the client services and products system. It conducted the first system innovation conference, initiated the annual innovation theme activity to establish a platform for the display of the results of innovation plans. It expanded the new space in serving the economy and society through the innovation in business models. The innovation in the “insurance plus services” system of PICC P&C introduced the insurance mechanism into the governmental and social governance to explore new mechanisms and paths in risks management and conflicts settlement. The disabled care insurance developed by PICC Life replaced the traditional insurance cash payment with care services payment, which effectively integrated the commercial insurance and social insurance mechanisms. Through the innovation in products and services, it integrated traditional advantages with the new advantages in the Internet and fostered new models in serving clients. The “Health Excellence plus” program of PICC Health takes full advantage of the “Internet plus” means and provides clients with various solutions in health and medical services. It established the products innovation center in Ningbo and deeply participated in and served the construction of the national comprehensive experimental area for innovation in insurance to give play to the function of the regional innovation incubator.

The Group sped up "client-oriented" transformation and continuously improved the consumption experience and satisfaction of clients. It implemented the Guideline on Strengthening the Protection of Interests of Financial Consumers and other regulations, actively rectified misleading sales and optimized claim handling procedures. PICC P&C built a professional, standard and unified database for human injuries through information technology means. Based on the strong automatic handling rules of the system, it improved the quick handling process for vehicle insurance with small amounts and achieved simultaneous improvement in the efficiency in claim handling for cases with small amounts, the risks management and control and the satisfaction of clients. It strictly abided by the system on the disclosure of information about insurance products and continuously promoted popular, simplified and standard insurance clauses. It also strengthened the value-added services management to provide clients with training services, risks appraisal, disasters and losses prevention and risks management services. The Group held the seventh Clients Festival with the theme of "Listening to Your Voices and Serving Your Demands" to enhance the communication and interaction with clients.

The Group strengthened the protection on information security, respected and protected the privacy of clients. It always considers the clients' information security as the key in the information security of the Company and established the client information security management system and internal operation procedures to safeguard the legitimate interests of insurance consumers in a practical way. In accordance with the requirements of the Insurance Law, the Law on the Protection of the Interests of Consumers and other laws and regulations, it included the authorization clause on seeking clients' approval on collecting and using their personal information in all business documents and cooperation agreements, specifying the purpose, method and scope of the information to be collected and used, and established a client information protection mechanism with legal collection and use and standard management. It promoted electronic insurance coverage and electronic policy plans to improve the proportion of policies filled by clients themselves and strengthen the protection of clients' privacy in the insurance coverage process.

Supply chain management

Continuously improving the supply chain management and establishing a stable, friendly, equal and mutual-benefit strategic partnership with all institutes in the upper and downstream of the supply chain. The Group strictly abides by the currently valid national policies and regulations. For tender management, it selected suppliers through bidding or competitive negotiations for the procurement of bulk products and services and conducted reporting according to relevant regulations of the Ministry of Finance. It actively conducted various forms of cooperation with professional insurance and intermediary agencies to enhance the joint-ability in business expansion. It consistently strengthened the construction of pipelines for vehicle manufacturers and continuously advanced the operation and management with "separate pipelines and operation and authorized operation". PICC P&C has established partnership with 30 main engine plants, 31 vehicles distributors, eight vehicles repairing chain enterprises. It actively consolidated quality medical treatment and health resources to establish a service with the integration of online and offline businesses. PICC Health has established partnership with a total 1,818 hospitals and more than 50,000 medical experts across China and has established VIP consulting rooms/commercial insurance rooms in 53 well-known hospitals. It actively established multi-layered and multi-dimensional business partnership with large state-owned banks, policy banks, joint-stock commercial banks and loan institutes. They jointly improved the value of both parties in clients, products, brands, pipelines and businesses through the swap of resources.

Anti-money laundering and anti-corruption

Strictly abiding by regulations, improving anti-money laundering information system, promoting the use of "the blacklist of anti-money laundering and anti-terrorist financing and the list of international sanctions and foreign politicians" and submitting the information report and statements on anti-money to regulatory authorities on time. The Group implemented the Anti-Money Laundering Law, the Regulation on Anti-Money Laundering by Financial Institutes, the Management Measures on the Reporting of Bulk Transactions and Doubtful Transactions by Financial Institutes, the Management Measures on Anti-Money Laundering in the Insurance Industry and other regulations, improved the procedures on anti-money laundering and strengthened the organization, leading, monitoring and inspection to improve the effectiveness of anti-money laundering measures. It arranged and conducted special compliance inspections on anti-money laundering and the prevention and disposal of illicit fund raisings and strictly conducted rectification on problems spotted. It also conducted the "Month for Promotion of Compliance Culture" and special trainings on anti-money laundering and anti-terrorist financing regulation to strengthen warning education and improve the awareness of all institutes and employees on compliance and anti-money laundering as well as professional skills.

It consistently conducted the anti-corruption and integrity construction and resolutely prohibits briberies, blackmails and frauds. It implemented the Guideline on Investigating Responsibilities in Cases of Insurance Institutes, the Implementation Measures on the Inspection on the Establishment of the Systematic Punishment and Anti-Corruption System by the China Insurance Regulatory Commission (For Trial Implementation) and other regulations and deeply analysed and looked for systematic loopholes in the integrity establishment through the rectification on audit and tour inspection and the inspection policy of "Two Strengthen, Two Restrain" to further improve various systems and processes. It promoted the establishment of the grass-roots internal control system and the establishment of the system on integrity and risks prevention and established the grass-roots internal control models and included the integrity risks into the control scope. It improved specific measures on risks prevention and prevented risks on profit transfer, taking briberies and seeking profits for others with inside information and undisclosed information to regulate business activities. In 2016, it conducted 2,144 special inspections in the whole system, proposed 2,800 advices and suggestions and conducted 4,105 anti-corruption education covering more than 400,000 employees.

ABOUT SERVING THE SOCIETY

Poverty alleviation

Exploring and conducting innovation in new paths in poverty alleviation through insurance and assisting in "winning the battle of poverty alleviation". The Group actively promoted the cooperation with the State Council Leading Group Office of Poverty Alleviation and Development in poverty alleviation and explored in the establishment of operation platforms for poverty alleviation to meet the diversified insurance demands in poverty alleviation. It continuously conducted innovation in the insurance mechanism and actively promoted the innovation on insurance products for targeted poverty alleviation. It has explored the "financial poverty alleviation with insurance as the pioneer" in Fuping, Hebei, the "poverty alleviation insurance" in Yanchi, Ningxia, the "one-stop medical services" for medical expenses in Zhaotong, Yunnan and other experiences and approaches can be applied in other regions. It also actively advanced the "supporting agriculture and small enterprises", "state-support+finance+insurance" and other pilots on exclusive finance. Through the innovation in the financial poverty alleviation mechanism, it held the bottom line for preventing poverty-stricken people falling into or returning poverty due to diseases and introduce the financial "living water" to stimulate the endogenous vitality in poverty alleviation.

Serving agriculture, rural areas and farmers

Actively serving the development of modern agriculture and promoting the implementation of national policies supporting agriculture. It convened a special meeting on implementing the decisions of the central rural work conference and the No. 1 Central Document for the tenth consecutive year and issued the Guideline on Agricultural Insurance. It deepened the reform in the operation system of agricultural insurance and fully initiated the reform of the department of agricultural insurance to build a grass-roots serving system for agriculture, rural areas and farmers to facilitate the modernization of agriculture. While following the intensified, scaled and industrial development of agriculture and maintaining traditional insurance categories, it also conducted innovation and upgraded agricultural insurance products. It actively explored regional characteristic agriculture, target price, meteorological index, yield and output value, "insurance plus futures" and other new types of agricultural insurance in conformity with the scaled agricultural production. In 2016, the gross written premiums attributable to the agriculture insurance segment of the Group amounted to RMB19.535 billion, representing an increase of 3.1% compared to the corresponding period last year, with a market share of 46%. It provided the protection against agriculture risks for RMB2.81 trillion (including farmhouse).

Social management innovation

Deeply participating in social management innovation and promoting the modernization of national management system through service. It actively participated in the establishment of a diversified settlement mechanism for conflicts and disputes. It conducted liability insurance business in medical disputes, safe production, food safety, government subsidies, pension services and other industries. In 2016, it achieved gross written premiums of RMB13.840 billion in respect of liability insurance, representing an increase of 19.3% compared to the corresponding period last year.

Protection of people's livelihood

The Group implemented policies on supply-side structural reform and assisted in shoring up weakness in protection of people's livelihood. Focusing on "shoring up weaknesses, the Group promoted the consolidation of social medical treatment and insurance businesses, strengthened the interaction of property and health insurances to give play to their advantages in expanding the critical illness insurance business. The critical illness insurance business served over 410 million people and received written premiums of RMB13.02 billion in 2016, representing an increase of 32% compared to the corresponding period last year. It expanded the pilot financing businesses for agriculture and small and micro enterprises and made substantial progress in conducting innovation in the development of inclusive finance. As at the end of 2016, it has established ten structured transaction proprietary asset management products for agriculture and small and micro enterprises and assisted more than 56,000 agricultural households and small and micro enterprises covering 27 provinces in the country.

Disaster relief

Constant emphasis on disaster claim settlement service, promotion of the construction of disaster relief system through service. The Group actively conducted disaster prevention and relief activities, opened green channels, released commitments on services to the public and efficiently conducted claim settlement services to assist the post-disaster reconstruction of disaster-stricken regions and stabilize the production and life of the public in disaster-stricken regions. It actively responded to the cold disaster in the beginning of the year, the rainstorms in the Yangtze River basin and northern areas in the middle of the year, the tornado which hit Yancheng, Jiangsu, Typhoons "Meranti", "Megi" and "Haima" as well as other significant natural disasters and properly dealt with the collapse of a cooling tower in Fengcheng, Jiangxi and other significant safety accidents. PICC P&C handled a total of 29.69 million claim settlement cases in 2016 and paid compensation of RMB159.9 billion in 2016 and played an active role in disaster relief and post-disaster reconstruction.

Community investment and charity

The Group is actively carrying out charity activities, making continuous returns to the society and public. With the PICC Philanthropy Charity Foundation as the professional platform for the operation of charitable activities, the Group donated Yuanmingyuan in construction of domestic and overseas lost cultural relics and document database, supported Yunnan Lijiang National Orphan School and paid a visit to the elderly from the Service Center of Five-guarantees Centralized Subsidy to Households in Qusong Tibet. The Group joined in the 2016 "The People's Insurance Charity Walk for Education Subsidy & Hope Classrooms for Chinese Studies" and donated traditional Chinese literature books, sportswear and sports goods to 107 remote under-privileged primary schools and 11,018 students. The Group conducted various voluntary activities to give play to the advantages of the service network and organizations of young volunteers and explored the "PICC Micro Charity Competition". It actively promoted the donation activity of the "PICC Employees Love Day", rescued the poor and provided help to those who were in difficulty.

The Group will publish a social responsibility report separately for the year 2016 to describe in detail the Group's fulfillment of social responsibility in accordance with the requirements of the CIRC and the Stock Exchange.

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.

OTHER SIGNIFICANT EVENTS

(1) Establishment of a Pension Insurance Company

On 12 April 2016, as deliberated and approved at the first extraordinary general meeting of the Company in 2016, the Company will exclusively contribute to the establishment of The People's Pension Insurance Company of China Limited (中國人民養老保險有限責任公司) with a registered capital of RMB4 billion. The establishment of the Pension Insurance Company was approved by CIRC on 30 December 2016 with a preparation period of one year.

(2) Subscription of PICC Health's new shares by PICC P&C

On 23 June 2016, the Company, PICC P&C, a subsidiary of the Company, PICC Health, PICC Investment Holding, a wholly-owned subsidiary of the Company and other existing shareholders of PICC Health entered into a capital increase agreement. It is agreed that the capital of PICC Health shall be increased by way of issuance of new shares. The number of new shares to be issued is 2,118,644,067 shares, representing approximately 24.73% of the total issued share capital of PICC Health after completion of the capital increase, all of which shall be subscribed by PICC P&C with a purchase price of approximately RMB2.5 billion. On 30 June 2016, CIRC approved the capital increase of PICC Health. Currently, the payment for the transaction, the changes in the industrial and commercial registration and other subsequent matters have been completed. The shareholding in PICC Health of the Company, PICC P&C and PICC Investment Holding shall be 69.32%, 24.73% and 1.40%, respectively.

(3) Completion of the acquisition of shares in Hua Xia Bank

On 31 October 2016, CBRC approved the transfer of shares of Hua Xia Bank, agreeing that PICC P&C, a subsidiary of the Company, will purchase 2,136,045,885 shares of the bank jointly held by Deutsche Bank Aktiengesellschaft, Deutsche Bank Luxembourg S.A. and Sal. Oppenheim jr. & Cie. AG & Co. Kommanditgesellschaft auf Aktien. The conditions for the transfer of shares have been fulfilled and PICC P&C paid a total purchase price of approximately RMB22.444 billion based on the provisions of the share transfer agreement signed on 28 December 2015. Currently, the subject shares are registered under the name of PICC P&C. After the completion of the transaction, PICC P&C holds 2,136,045,885 ordinary shares of Hua Xia Bank with a shareholding proportion of 19.99%.

(4) Absorption and merger of No.88 Company

On 14 November 2016, as deliberated and approved at the second extraordinary general meeting of the Company in 2016, the Company and No.88 Company, a wholly-owned subsidiary of the Company, signed an agreement on absorption and merger. The Company will undertake all assets and liabilities of No.88 Company and No.88 Company will be cancelled. After the completion of absorption and merger, the registered capital of the Company remained unchanged at RMB42,423,990,583. Currently, relevant work on the absorption and merger of No.88 Company are in progress.

COMPLIANCE WITH LAWS AND REGULATIONS

The Company had complied with relevant laws and regulations which had significant impact on businesses and operations of the Company in all material aspects.

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.

Embedded value does not include the economic value of future new business. The value of one year's new business provides an indication of the value created for investors by new business activity based on the assumptions used and hence the potential of the business.

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 2016, 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 2016, 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 EMBEDDED VALUE OF PICC LIFE

PICC Life has retained Deloitte Consulting (Shanghai) Limited Beijing Branch to review its embedded value as of 31 December 2016. 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 value of one year's new business as of 31 December 2016;
- Review the assumptions of the embedded value and value of one year's new business as of 31 December 2016;
- Review the various embedded value results as of 31 December 2016, including the embedded value, value of one year's new business, analysis of embedded value movement from 31 December 2015 to 31 December 2016, and the sensitivity tests of value of in-force business and value of one year's new business under alternative assumptions;
- Review the various embedded value results as of 31 December 2015, based on the same assumption of rate of investment return and valuation methodology as of 31 December 2016 while other assumptions remain unchanged; and
- Review the breakdown of value of one year's new business as of 31 December 2016 and 31 December 2015 by distribution channel.

BASIS OF OPINION, RELIANCE AND LIMITATION

We carried out our review work based on "Guidance on Actuarial Practice: Valuation of Embedded Value for Life and Health Insurance", which was issued by China Association of Actuaries ("CAA") in November 2016.

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. Many of these assumptions are not entirely controlled by PICC Life. They are affected by 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 law, 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 statements 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"Guidance on Actuarial Practice: Valuation of Embedded Value for Life and Health Insurance" issued by CAA in November 2016. This method is one that is commonly used by life and health insurance companies in China;
- The economic assumptions used by PICC Life have taken into account the current investment market conditions and the investment strategy of PICC Life;
- The operating assumptions used by PICC Life have been taken into account the past experience and the expectation of future experience; and
- The various 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

31 DECEMBER 2016 EMBEDDED VALUE REPORT OF PICC LIFE INSURANCE COMPANY LIMITED

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 fair value of the assets attributable to shareholders in excess of liabilities of the business as at the valuation date;

- **Value of In-Force Business ("VIF"):** this is the present value of future cash flows attributable to shareholders arising from the in-force business and the corresponding assets as at the valuation date. The assets contributing to the cash flows are those supporting the corresponding liabilities of in-force business;

- **Cost of Required Capital ("CoC"):** this is defined as the amount of capital required from shareholders at the valuation date and the present value of future movements of such capital (end of period value less start of period value), and the calculation should take into account 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 statutory requirement of China Insurance Regulatory Commission ("CIRC");

- **Value of One Year's New Business ("V1NB"):** this is equal to the present value as at the policy issue dates of the future cash flows from the policies issued in the specified one year period and the corresponding assets. The assets contributing to the cash flows are those supporting the corresponding liabilities of new policies. The value associated with top-up premium not expected from the in-force business is included in value of one year's new business; and

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

1.2 Methodology

In 2016, the China Risk Oriented Solvency System ("C-ROSS") became effective. Meanwhile, CIRC terminated the use of "Guidance on Life Insurance Embedded Value Report Preparation" (CIRC [2005] No. 83). China Association of Actuaries ("CAA") issued "Guidance on Actuarial Practice: Valuation of Embedded Value for Life and Health Insurance" in November 2016. PICC Life Insurance Company Limited ("PICC Life") has determined the embedded value and the value of one year's new business based on "Guidance on Actuarial Practice: Valuation of Embedded Value for Life and Health Insurance".

As this is the first time to adopt the "Guidance on Actuarial Practice: Valuation of Embedded Value for Life and Health Insurance", PICC Life calculated and illustrated the embedded value as of the previous year with the same methodology for comparison.

PICC Life has adopted the commonly used embedded value approach in the industry. 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. RESULTS SUMMARY

In this section we have shown the results of this year as well as those of last year for comparison purpose. All figures shown in this section are based on risk discount rate at 10%.

2. RESULTS SUMMARY *(continued)*

2.1 Overall Results

Table 2.1.1 Embedded Value of PICC Life as of 31 December 2016 and 31 December 2015 (Unit: RMB Million)

	2016	2015 Pro Forma
Risk Discount Rate	10%	10%
Value of In-Force Business before CoC	21,949	16,546
Cost of Required Capital	(3,468)	(2,491)
Value of In-Force Business after CoC	18,481	14,055
Adjusted Net Worth	39,076	41,267
Embedded value	57,558	55,322

Notes: 1. Figures may not add up to total due to rounding.

2. The embedded value as of 31 December 2015 is recalculated based on the assumption of investment return rate as of 31 December 2016 and the "Guidance on Actuarial Practice: Valuation of Embedded Value for Life and Health Insurance" (Other assumptions remain the same as of 31 December 2015).

Table 2.1.2 Value of One Year's New Business of PICC Life for the 12 months up to 31 December 2016 and 31 December 2015 (Unit: RMB Million)

	2016	2015 Pro Forma
Risk Discount Rate	10%	10%
Value of One Year's New Business before CoC	5,943	3,752
Cost of Required Capital	(1,812)	(1,054)
Value of One Year's New Business after CoC	4,131	2,698

Notes: 1. Figures may not add up to total due to rounding.

2. The one year's new business value as of 31 December 2015 is recalculated based on the assumption of investment return rate as of 31 December 2016 and the "Guidance on Actuarial Practice: Valuation of Embedded Value for Life and Health Insurance" (Other assumptions remain the same as of 31 December 2015).

2.2 Results by Distribution Channels

PICC Life split the value of one year's new business by distribution channel. The results of the value of one year's new business by distribution channel as of 31 December 2016 and 31 December 2015 are summarized in the table below.

Table 2.2.1 Value of One Year's New Business of PICC Life for the 12 months up to 31 December 2016 and 31 December 2015 by Distribution Channel (Unit: RMB Million)

Risk Discount Rate			10%		
Distribution Channel	**Bancassurance**	**Individual insurance agent**	**Group sales**	**Reinsurance**	**Total**
Value of One Year's New Business after CoC (2016)	**134**	**3,403**	**592**	**2**	**4,131**
Value of One Year's New Business after CoC (2015 Pro Forma)	252	2,164	261	22	2,698

2. RESULTS SUMMARY *(continued)*

Notes: 1. Figures may not add up to total due to rounding.

2. The one year's new business value as of 31 December 2015 is recalculated based on the assumption of investment return rate as of 31 December 2016 and the "Guidance on Actuarial Practice: Valuation of Embedded Value for Life and Health Insurance" (Other assumptions remain the same as of 31 December 2015).

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 to be incurred 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 CAA. The actual expense overrun in reporting period has been reflected in Adjusted Net Worth.

3. ASSUMPTIONS

The assumptions below are used for the valuation of the embedded value and value of one year's new business as of 31 December 2016.

3.1 Risk Discount Rate

A 10% risk discount rate has been used to calculate the embedded value and value of one year's new business.

3.2 Rate of Investment Return

A 5.25% 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 tests.

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 34% to 58% 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. ASSUMPTIONS *(continued)*

3.8 Tax

The corporate income tax rate is assumed to be 25% of the taxable income. 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.

4. SENSITIVITY TESTS

PICC Life has conducted sensitivity tests on the value of in-force business and value of one year's new business. In each of these tests, only the assumption referred to is changed, while other assumptions remain unchanged. The changed assumption may affect both cash flow projection and reserve calculation. For the investment return assumption scenarios, 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 Value of In-Force Business of PICC Life as of 31 December 2016 under Alternative Assumptions (Unit: RMB Million)

Scenarios	Before CoC	After CoC
Base Scenario	21,949	18,481
Risk Discount Rate at 9%	23,624	20,453
Risk Discount Rate at 11%	20,529	16,802
Liability Discount Rate at 4%	24,166	20,060
Liability Discount Rate at 5%	20,557	17,644
Rate of investment return increased by 50 bps	26,470	23,081
Rate of investment return decreased by 50 bps	17,730	14,266
Expenses increased by 10%	21,655	18,180
Expenses decreased by 10%	22,245	18,784
Lapse rate increased by 10%	20,689	17,721
Lapse rate decreased by 10%	23,051	19,128
Mortality increased by 10%	21,689	18,227
Mortality reduced by 10%	22,209	18,734
Morbidity increased by 10%	21,899	18,385
Morbidity reduced by 10%	22,210	18,695
Short-term business claim ratio increased by 10%	21,902	18,434
Short-term business claim ratio decreased by 10%	21,997	18,529
Participating Ratio (80/20)	21,510	17,872

Note: Except for the sensitivity scenarios on risk discount rate, the risk discount rate used for other scenarios is 10%.

Table 4.2 Value of One Year's New Business for the 12 months up to 31 December 2016 of PICC Life under Alternative Assumptions (Unit: RMB Million)

Scenarios	Before CoC	After CoC
Base Scenario	5,943	4,131
Risk Discount Rate at 9%	6,750	5,139
Risk Discount Rate at 11%	5,263	3,269
Liability Discount Rate at 4%	5,418	3,332
Liability Discount Rate at 5%	6,351	4,774
Rate of investment return increased by 50 bps	8,151	6,412
Rate of investment return decreased by 50 bps	3,753	1,902
Expenses increased by 10%	5,260	3,448
Expenses decreased by 10%	6,626	4,814
Lapse rate increased by 10%	5,256	3,679
Lapse rate decreased by 10%	6,565	4,539
Mortality increased by 10%	5,847	4,038
Mortality reduced by 10%	6,040	4,225
Morbidity increased by 10%	5,863	4,066
Morbidity reduced by 10%	6,025	4,221
Short-term business claim ratio increased by 10%	5,843	4,031
Short-term business claim ratio decreased by 10%	6,043	4,231
Participating Ratio (80/20)	5,658	3,783

Note: Except for the sensitivity scenarios on risk discount rate, the risk discount rate used for other scenarios is 10%.

5. MOVEMENT ANALYSIS

Table 5.1 shows the analysis of embedded value movement from 31 December 2015 to 31 December 2016.

Table 5.1 Analysis of Embedded Value Movement from 31 December 2015 to 31 December 2016 (Unit: RMB Million)

Item	Description	Amount
1	Embedded Value as at 31 December 2015	53,028
2	Opening Embedded Value Adjustment	3,538
3	New Business Contribution	4,369
4	Expected Return	3,597
5	Investment Return Variance	(1,652)
6	Other Experience Variance	(1,691)
7	Assumption Modification	(1,747)
8	Capital change and Market Value Adjustment	(1,336)
9	Others	(548)
10	Embedded Value as at 31 December 2016	57,558

Explanations on items 2 to 9 above:

2. Change in embedded value due to the recalculation of the embedded value as at 31 December 2015 by adopting the "Guidance on Actuarial Practice: Valuation of Embedded Value for Life and Health Insurance";

3. The contribution of new business sold in 2016 to the embedded value at 31 December 2016;

4. The expected return in 2016 arising from the in-force business and adjusted net worth at 2015 year end;

5. Change in embedded value arising from variances in 2016 between the actual investment and the related investment assumption;

6. Change in embedded value arising from variances in 2016 between the actual experiences and assumption other than relating to investment;

7. The impact on embedded value due to the changes in assumptions during 2016;

8. The impact on embedded value due to dividend distributed to shareholders, capital changes and the changes in market value of held-to-maturity financial assets caused by interest rate fluctuations during 2016;

9. The impact on embedded value due to the changes in the projection factors of the minimum required capital for various risks from 2015 year end to 2016 year end.

INDEPENDENT ACTUARIES REVIEW OPINION REPORT ON EMBEDDED VALUE OF PICC HEALTH

PICC Health has retained Deloitte Consulting (Shanghai) Limited Beijing Branch to review its embedded value as of 31 December 2016. 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 value of one year's new business as of 31 December 2016;
- Review the assumptions of the embedded value and value of one year's new business as of 31 December 2016;
- Review the various embedded value results as of 31 December 2016, including the embedded value, value of one year's new business, analysis of embedded value movement from 31 December 2015 to 31 December 2016, and the sensitivity tests of value of in-force business and value of one year's new business under alternative assumptions;
- Review the various embedded value results as of 31 December 2015, based on the same assumption of rate of investment return and valuation methodology as of 31 December 2016 while other assumptions remain unchanged; and
- Review the breakdown of value of one year's new business as of 31 December 2016 and 31 December 2015 by distribution channel.

BASIS OF OPINION, RELIANCES AND LIMITATION

We carried out our review work based on "Guidance on Actuarial Practice: Valuation of Embedded Value for Life and Health Insurance", which was issued by China Association of Actuaries ("CAA") in November 2016.

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. Many of these assumptions are not entirely controlled by PICC Health. They are affected by 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 People's Insurance Company (Group) of China Limited to be disclosed in its annual report. To the fullest extent permitted by applicable law, 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 statements 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 "Guidance on Actuarial Practice: Valuation of Embedded Value for Life and Health Insurance" issued by CAA in November 2016. This method is one that is commonly used by life and health insurance companies in China;
- The economic assumptions used by PICC Health have taken into account the current investment market conditions and the investment strategy of PICC Health;
- The operating assumptions used by PICC Health have been taken into account the past experience and the expectation of future experience; and
- The various 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

31 DECEMBER 2016 EMBEDDED VALUE REPORT OF PICC HEALTH INSURANCE COMPANY LIMITED

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 fair value of the assets attributable to shareholders in excess of liabilities of the business as at the valuation date;

- **Value of In-Force Business ("VIF"):** this is the present value of future cash flows attributable to shareholders arising from the in-force business and the corresponding assets as at the valuation date. The assets contributing to the cash flows are those supporting the corresponding liabilities of in-force business;

- **Cost of Required Capital ("CoC"):** this is defined as the amount of capital required from shareholders at the valuation date and the present value of future movements of such capital (end of period value less start of period value), and the calculation should take into account 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 statutory requirement of China Insurance Regulatory Commission ("CIRC");

- **Value of One Year's New Business ("V1NB"):** this is equal to the present value as at the policy issue dates of the future cash flows from the policies issued in the specified one year period and the corresponding assets. The assets contributing to the cash flows are those supporting the corresponding liabilities of new policies. The value associated with top-up premium not expected from the in-force business is included in value of one year's new business; and

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

1.2 Methodology

In 2016, the China Risk Oriented Solvency System ("C-ROSS") became effective. Meanwhile, CIRC terminated the use of "Guidance on Life Insurance Embedded Value Report Preparation" (CIRC [2005] No. 83). China Association of Actuaries ("CAA") issued "Guidance on Actuarial Practice: Valuation of Embedded Value for Life and Health Insurance" in November 2016. PICC Health Insurance Company Limited ("PICC Health") has determined the embedded value and the value of one year's new business based on "Guidance on Actuarial Practice: Valuation of Embedded Value for Life and Health Insurance".

As this is the first time to adopt the "Guidance on Actuarial Practice: Valuation of Embedded Value for Life and Health Insurance", PICC Health calculated and illustrated the embedded value as of the previous year with the same methodology for comparison.

PICC Health has adopted the commonly used embedded value approach in the industry. 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. RESULTS SUMMARY

In this section we have shown the results of this year as well as those of last year for comparison purpose. All figures shown in this section are based on risk discount rate at 10%.

2.1 Overall Results

Table 2.1.1 Embedded Value of PICC Health as of 31 December 2016 and 31 December 2015 (Unit: RMB Million)

	2016	2015 Pro Forma
Risk Discount Rate	**10%**	10%
Value of In-Force Business before CoC	**1,755**	1,131
Cost of Required Capital	**(324)**	(188)
Value of In-Force Business after CoC	**1,430**	943
Adjusted Net Worth	**5,687**	3,154
Embedded Value	**7,118**	4,097

Notes: 1. Figures may not add up to total due to rounding.

2. The embedded value as of 31 December 2015 is recalculated based on the assumption of investment return rate as of 31 December 2016 and the "Guidance on Actuarial Practice: Valuation of Embedded Value for Life and Health Insurance" (Other assumptions remain the same as of 31 December 2015).

Table 2.1.2 Value of One Year's New Business of PICC Health for the 12 months up to 31 December 2016 and 31 December 2015 (Unit: RMB Million)

	2016	2015 Pro Forma
Risk Discount Rate	**10%**	10%
Value of One Year's New Business before CoC	**446**	329
Cost of Required Capital	**(121)**	(55)
Value of One Year's New Business after CoC	**325**	274

Notes: 1. Figures may not add up to total due to rounding.

2. The one year's new business value as of 31 December 2015 is recalculated based on the assumption of investment return rate as of 31 December 2016 and the "Guidance on Actuarial Practice: Valuation of Embedded Value for Life and Health Insurance" (Other assumptions remain the same as of 31 December 2015).

2.2 Results by Distribution Channels

PICC Health split the value of one year's new business by distribution channel. The results of the value of one year's new business by distribution channel as of 31 December 2016 and 31 December 2015 are summarized in the table below.

Table 2.2.1 Value of One Year's New Business of PICC Health for the 12 months up to 31 December 2016 and 31 December 2015 by Distribution Channel (Unit: RMB Million)

Risk Discount Rate		**10%**			
Distribution Channel	**Bancassurance**	**Individual insurance agent**	**Group sales**	**Reinsurance**	**Total**
Value of One Year's New Business after CoC (2016)	**13**	**284**	**28**	**–**	**325**
Value of One Year's New Business after CoC (2015 Pro Forma)	34	191	49	–	274

Notes: 1. Figures may not add up to total due to rounding.

2. The one year's new business value as of 31 December 2015 is recalculated based on the assumption of investment return rate as of 31 December 2016 and the "Guidance on Actuarial Practice: Valuation of Embedded Value for Life and Health Insurance" (Other assumptions remain the same as of 31 December 2015).

2. RESULTS SUMMARY *(continued)*

2.2 Results by Distribution Channels *(continued)*

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 to be incurred 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 CAA. The actual expense overrun in reporting period has been reflected in Adjusted Net Worth.

3. ASSUMPTIONS

The assumptions below are used for the valuation of the embedded value and value of one year's new business as of 31 December 2016.

3.1 Risk Discount Rate

A 10% risk discount rate has been used to calculate the embedded value and value of one year's new business.

3.2 Rate of Investment Return

A 5.25% 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 tests.

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 30% to 94.5% 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

The corporate income tax rate is assumed to be 25% of the taxable income. 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.

4. SENSITIVITY TESTS

PICC Health has conducted sensitivity tests on the value of in-force business and value of one year's new business. In each of these tests, only the assumption referred to is changed, while other assumptions remain unchanged. The changed assumption may affect both cash flow projection and reserve calculation. For the investment return assumption scenarios, 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 Value of In-Force Business of PICC Health as of 31 December 2016 under Alternative Assumptions (Unit: RMB Million)

Scenarios	Before CoC	After CoC
Base Scenario	1,755	1,430
Risk Discount Rate at 9%	1,873	1,588
Risk Discount Rate at 11%	1,652	1,292
Liability Discount Rate at 4%	1,538	1,225
Liability Discount Rate at 5%	2,007	1,667
Rate of investment return increased by 50 bps	2,143	1,847
Rate of investment return decreased by 50 bps	1,364	1,014
Expenses increased by 10%	1,695	1,368
Expenses decreased by 10%	1,819	1,502
Lapse rate increased by 10%	1,725	1,420
Lapse rate decreased by 10%	1,784	1,442
Mortality increased by 10%	1,750	1,427
Mortality reduced by 10%	1,759	1,437
Morbidity increased by 10%	1,727	1,402
Morbidity reduced by 10%	1,785	1,465
Short-term business claim ratio increased by 5%	1,351	1,027
Short-term business claim ratio decreased by 5%	2,191	1,871
Participating Ratio (80/20)	1,762	1,439

Note: Except for the sensitivity scenarios on risk discount rate, the risk discount rate used for other scenarios is 10%.

Table 4.2 Value of One Year's New Business for the 12 months up to 31 December 2016 of PICC Health under Alternative Assumptions (Unit: RMB Million)

Scenarios	Before CoC	After CoC
Base Scenario	446	325
Risk Discount Rate at 9%	483	379
Risk Discount Rate at 11%	414	277
Liability Discount Rate at 4%	467	349
Liability Discount Rate at 5%	422	296
Rate of investment return increased by 50 bps	561	450
Rate of investment return decreased by 50 bps	321	189
Expenses increased by 10%	399	277
Expenses decreased by 10%	493	373
Lapse rate increased by 10%	440	322
Lapse rate decreased by 10%	453	328
Mortality increased by 10%	444	322
Mortality reduced by 10%	449	328
Morbidity increased by 10%	436	314
Morbidity reduced by 10%	456	336
Short-term business claim ratio increased by 5%	274	152
Short-term business claim ratio decreased by 5%	618	498
Participating Ratio (80/20)	444	323

Note: Except for the sensitivity scenarios on risk discount rate, the risk discount rate used for other scenarios is 10%.

5. MOVEMENT ANALYSIS

Table 5.1 shows the analysis of embedded value movement from 31 December 2015 to 31 December 2016

Table 5.1 Analysis of Embedded Value Movement from 31 December 2015 to 31 December 2016 (Unit: RMB Million)

Item	Description	Amount
1	Embedded Value as at 31 December 2015	4,473
2	Opening Embedded Value Adjustment	(49)
3	New Business Contribution	429
4	Expected Return	346
5	Investment Return Variance	(327)
6	Other Experience Variance	212
7	Assumption Modification	(407)
8	Capital change and Market Value Adjustment	2,485
9	Others	(44)
10	Embedded Value as at 31 December 2016	7,118

Explanations on items 2 to 9 above;

2. Change in embedded value due to the recalculation of the embedded value as at 31 December 2015 by adopting the "Guidance on Actuarial Practice: Valuation of Embedded Value for Life and Health Insurance";

3. The contribution of new business sold in 2016 to the embedded value at 31 December 2016;

4. The expected return in 2016 arising from the in-force business and adjusted net worth at 2015 year end;

5. Change in embedded value arising from variances in 2016 between the actual investment and the related investment assumption;

6. Change in embedded value arising from variances in 2016 between the actual experiences and assumption other than relating to investment;

7. The impact on embedded value due to the changes in assumptions during 2016;

8. The impact on embedded value due to capital changes and the changes in market value of held-to-maturity financial assets caused by interest rate fluctuations during 2016;

9. The impact on embedded value due to the changes in projection factors of the minimum required capital for various risks from 2015 year end to 2016 year end.

Independent Auditor's Report

TO THE SHAREHOLDERS OF THE PEOPLE'S INSURANCE COMPANY (GROUP) OF CHINA LIMITED
(Incorporated in the People's Republic of China with limited liability)

Opinion

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 90 to 199, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Valuation of life and health insurance contract liabilities	

We identified the valuation of life and health insurance contract liabilities as a key audit matter as the determination of these balances requires the use of appropriate actuarial methodologies and also highly judgmental assumptions.
 	
The Group recorded long-term life and health insurance contract liabilities of RMB291,009 million as at 31 December 2016.
 	
Assumptions used in the valuation of life and health insurance contract liabilities include the discount rates, demographic assumptions such as mortality and morbidity, assumptions on policyholder behaviour such as persistency, and management assumptions over the future costs of obtaining and maintaining the life insurance business. Small movements in these assumptions can have a material impact on the life and health insurance contract liabilities.
 	
Details of the life and health insurance contract liabilities are set out in note 37 to the consolidated financial statements.
	Our procedures in relation to the valuation of life and health insurance contract liabilities included:
	
	• Testing the key internal controls over the estimation of life and health insurance contract liabilities;
	
	• Testing the underlying company data to source documentation on a sample bases;
	
	• With the assistance of our actuarial specialists:
	
	    • Assessing the appropriateness of the models, methodologies and assumptions used (including assumptions on discount rates, mortality, morbidity, persistency and maintenance expenses);
	
	    • Evaluating and challenging management's key judgments and assumptions. Our evaluation and challenge included whether these judgments were supported by relevant experience, market information and formed a reasonable basis for setting the assumptions; and
	
	    • Verifying independently the calculations of actuarial models on a sample basis.

Valuation of non-life insurance contract liabilities	

We identified the valuation of non-life insurance contract liabilities as a key audit matter as the estimation of non-life insurance contract liabilities involves a significant degree of judgment.
 	
The Group recorded non-life insurance contract liabilities of RMB242,493 million as at 31 December 2016.
 	
The liabilities are based on the best-estimate ultimate cost of all claims incurred but not settled at a given date, whether reported or not, together with the related claims handling costs. A range of methods may be used to determine these provisions. Underlying these methods are a number of explicit or implicit assumptions relating to the expected settlement amount and settlement patterns of claims. Small changes in these assumptions could result in material changes to the account balance.
 	
Details of the non-life insurance contract liabilities are set out in note 37 to the consolidated financial statements.
	Our procedures in relation to the valuation of non-life insurance contract liabilities included:
	
	• Testing the key internal controls over the estimation of non-life insurance contract liabilities;
	
	• Testing the underlying company data to source documentation on a sample basis;
	
	• With the assistance of our actuarial specialists:
	
	    • Comparing the methodology, models and assumptions used against recognised actuarial practices by applying our industry knowledge and experience;
	
	    • Performing independent re-projections on selected classes of business, particularly focusing on the largest and most uncertain reserves and comparing our re-projected claims reserves to those recorded by management to assess its reasonableness; and
	
	    • Evaluating the methodology and assumptions, or performing a diagnostic check to identify any abnormalities for the remaining classes.

Key audit matter	How our audit addressed the key audit matter
Acquisition of an associate	

We identified the acquisition of an associate, Hua Xia Bank Co., Limited ("Hua Xia Bank"), as a key audit matter due to the significance of the investment in Hua Xia Bank and the complexity involved in the purchase price allocation.
 	
The Group acquired 19.99% interest in Hua Xia Bank in November 2016. The Group recognised a provisional gain on bargain purchase of RMB2,636 million for the acquisition and included as share of profits of associates in the consolidated income statements. The carrying amount of the investment in Hua Xia Bank was RMB26,091 million as at 31 December 2016.
 	
Details of the investment in Hua Xia Bank are set out in note 26 to the consolidated financial statements.
	Our procedures in relation to the acquisition of an associate included:
	
	• Reviewing the sale and purchase agreements and verifying whether accounting treatments have been applied in accordance with the terms and conditions stated in these agreements;
	
	• Evaluating the valuation and accounting for the consideration payable and tracing the payments to bank statements;
	
	• Reviewing the provisional purchase price allocation result performed by the Group with the assistance of our valuation specialists, which included:
	
	    • Assessing identification and fair valuation of the assets and liabilities the Group acquired at the acquisition date;
	
	    • Comparing the valuation methodologies used in deriving the fair values of the identifiable assets and liabilities at acquisition date to generally accepted market practices; and
	
	    • Challenging assumptions used by management and the external valuers in the valuation models and testing the integrity of the inputs used in these models; and
	
	• Evaluating the scope of work, qualifications and competence and independence of the external valuers selected by the Group to support management to prepare the purchase price allocation.

Other Information

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs 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.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements ***(continued)***

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Man Kai Sze.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
24 March 2017

Consolidated Income Statement

For the year ended 31 December 2016
(Amounts in millions of Renminbi, unless otherwise stated)

	Notes	2016	2015
Gross written premiums	5	439,874	388,387
Less: Premiums ceded to reinsurers	5	(32,749)	(31,255)
Net written premiums	5	407,125	357,132
Change in unearned premium reserves	5	(10,255)	(7,821)
Net earned premiums		396,870	349,311
Reinsurance commission income		10,519	9,678
Investment income	6	33,075	44,336
Other income	7	2,859	2,686
TOTAL INCOME		443,323	406,011
Life insurance death and other benefits paid		113,583	93,319
Claims incurred		203,236	180,684
Changes in long-term life insurance contract liabilities		5,633	9,138
Policyholder dividends		3,538	4,149
Claims and policyholder's benefits:	8	325,990	287,290
Less: claims and policyholders' benefits ceded to reinsurers	8	(24,237)	(21,147)
Net claims and policyholders' benefits	8	301,753	266,143
Handling charges and commissions	4	53,664	35,963
Finance costs	9	4,333	4,603
Exchange gains		(688)	(632)
Other operating and administrative expenses	10	69,328	72,455
TOTAL BENEFITS, CLAIMS AND EXPENSES		428,390	378,532
Share of profits and losses of associates and joint ventures		10,386	6,491
PROFIT BEFORE TAX	11	25,319	33,970
Income tax expense	14	(4,638)	(6,305)
PROFIT FOR THE YEAR		20,681	27,665
Attributable to:			
Equity holders of the parent		14,245	19,542
Non-controlling interests		6,436	8,123
		20,681	27,665
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT (in RMB)			
– Basic	15	0.34	0.46

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2016
(Amounts in millions of Renminbi, unless otherwise stated)

	Notes	2016	2015 (Restated)
PROFIT FOR THE YEAR		**20,681**	27,665
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified subsequently to profit or loss:			
Available-for-sale financial assets			
– Fair value (losses)/gains		**(6,598)**	18,797
– Reclassification of gains to profit or loss on disposals		**(876)**	(11,949)
– Impairment losses	6(d)	**1,162**	165
Income tax effect			
– Fair value losses/(gains)		**1,650**	(4,700)
– Reclassification of gains to profit or loss on disposals		**212**	2,986
– Impairment losses		**(289)**	(38)
		(4,739)	5,261
Net losses on cash flow hedges		**(5)**	(13)
Income tax effect	31	**1**	3
		(4)	(10)
Share of other comprehensive income of associates and joint ventures		**165**	548
Exchange differences on translating foreign operations		**73**	62
NET OTHER COMPREHENSIVE (EXPENSE)/INCOME MAY BE RECLASSIFIED TO PROFIT OR LOSS IN SUBSEQUENT PERIODS		**(4,505)**	5,861
Items that will not be reclassified to profit or loss:			
Gains on revaluation of properties and prepaid land premiums upon transfer to investment properties	27	**332**	428
Income tax effect	31	**(83)**	(107)
		249	321
Actuarial gains/(losses) on pension benefit obligation	39	**41**	(272)
Share of other comprehensive expense of associates and joint ventures		**(66)**	–
NET OTHER COMPREHENSIVE INCOME WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS IN SUBSEQUENT PERIODS		**224**	49
OTHER COMPREHENSIVE (EXPENSE)/INCOME FOR THE YEAR, NET OF TAX		**(4,281)**	5,910
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**16,400**	33,575
Attributable to:			
– Equity holders of the parent		**11,102**	23,867
– Non-controlling interests		**5,298**	9,708
		16,400	33,575

Consolidated Statement of Financial Position

At 31 December 2016
(Amounts in millions of Renminbi, unless otherwise stated)

	Notes	**31 December 2016**	31 December 2015
ASSETS			
Cash and cash equivalents	17	**46,729**	49,884
Derivative financial assets	18	**3**	8
Debt securities	19	**240,531**	232,147
Equity securities, mutual funds and trust schemes	20	**150,550**	125,275
Insurance receivables, net	21	**34,339**	21,558
Reinsurance assets	22, 37	**31,019**	26,542
Term deposits	23	**91,884**	148,097
Restricted statutory deposits		**9,911**	9,914
Investments classified as loans and receivables	24	**168,778**	110,485
Investments in associates and joint ventures	26	**85,834**	53,308
Investment properties	27	**10,695**	10,358
Property and equipment	28	**24,113**	23,095
Intangible assets	29	**1,197**	1,005
Prepaid land premiums	30	**3,825**	3,941
Deferred tax assets	31	**5,965**	2,251
Other assets	32	**26,776**	25,600
TOTAL ASSETS		**932,149**	843,468
LIABILITIES			
Securities sold under agreements to repurchase	34	**33,066**	28,231
Income tax payable		**2,756**	3,117
Due to banks and other financial institutions	35	**–**	980
Bonds payable	36	**46,084**	39,210
Insurance contract liabilities	37	**538,513**	507,686
Investment contract liabilities for policyholders	38	**38,370**	27,601
Policyholder dividends payable		**7,064**	8,114
Pension benefit obligation	39	**2,800**	2,990
Deferred tax liabilities	31	**752**	1,455
Other liabilities	40	**91,750**	66,889
TOTAL LIABILITIES		**761,155**	686,273
EQUITY			
Issued capital	41	**42,424**	42,424
Reserves	42	**83,677**	73,677
Equity attributable to equity holders of the parent		**126,101**	116,101
Non-controlling interests		**44,893**	41,094
TOTAL EQUITY		**170,994**	157,195
TOTAL EQUITY AND LIABILITIES		**932,149**	843,468

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016
(Amounts in millions of Renminbi, unless otherwise stated)

	Attributable to equity holders of the parent															
	Share capital *(note 41)*	Share premium account	Available-for-sale investment revaluation reserve	General risk reserve *(note42 (a))*	Agriculture catastrophic loss reserve *(note42 (b))*	Asset revaluation	Cash flow hedge	Share of other comprehensive income of associates and joint ventures	Foreign currency translation reserve	Surplus reserve fund* *(note42 (c))*	Other reserves *(note42 (d))*	Actuarial gains/(losses) on pension benefit obligation *(note39)*	Retained profits	Subtotal	Non-controlling interests	Total equity
Balance at 1 January 2016	42,424	19,925	5,840	5,770	1,300	2,232	(3)	594	(49)	1,101	(15,010)	(693)	52,670	116,101	41,094	157,195
Profit for the year	–	–	–	–	–	–	–	–	–	–	–	–	14,245	14,245	6,436	20,681
Other comprehensive income/(expense)	–	–	(3,487)	–	–	185	(4)	67	55	–	–	41	–	(3,143)	(1,138)	(4,281)
Total comprehensive income	–	–	(3,487)	–	–	185	(4)	67	55	–	–	41	14,245	11,102	5,298	16,400
Appropriations to general risk reserve and surplus reserve fund	–	–	–	1,292	–	–	–	–	–	309	–	–	(1,601)	–	–	–
Appropriations to agriculture catastrophic loss reserve	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Dividends paid to shareholders	–	–	–	–	–	–	–	–	–	–	–	–	(959)	(959)	(1,574)	(2,533)
Capital contributed by non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	–	–	–	12	12
Change in ownership interest in subsidiaries	–	–	–	–	–	–	–	–	–	–	(143)	–	–	(143)	63	(80)
Balance at 31 December 2016	42,424	19,925	2,353	7,062	1,300	2,417	(7)	661	6	1,410	(15,153)	(652)	64,355	126,101	44,893	170,994

* This reserve contains both statutory and discretionary surplus reserves.

Consolidated Statement of Changes in Equity (continued)

For the year ended 31 December 2015

(Amounts in millions of Renminbi, unless otherwise stated)

	Attributable to equity holders of the parent															
	Share capital *(note 41)*	Share premium account	Available-for-sale investment revaluation reserve *(Restated)*	General risk reserve *(note42 (a))*	Agriculture catastrophic loss reserve *(note42 (b))*	Asset revaluation	Cash flow hedge	Share of other comprehensive income of associates and joint ventures *(Restated)*	Foreign currency translation reserve	Surplus reserve fund* *(note42 (c))*	Other reserves *(note42 (d))*	Actuarial losses on pension benefit obligation *(note39)*	Retained profits	Subtotal	Non-controlling interests	Total equity
Balance at 1 January 2015	42,424	19,925	1,951	4,011	497	1,966	5	191	(96)	802	(15,065)	–	35,970	92,581	32,996	125,577
Profit for the year	–	–	–	–	–	–	–	–	–	–	–	–	19,542	19,542	8,123	27,665
Other comprehensive income/(expense)	–	–	3,889	–	–	266	(8)	403	47	–	–	(693)	421	4,325	1,585	5,910
Total comprehensive income	–	–	3,889	–	–	266	(8)	403	47	–	–	(693)	19,963	23,867	9,708	33,575
Appropriations to general risk reserve and surplus reserve fund	–	–	–	1,759	–	–	–	–	–	299	–	–	(2,058)	–	–	–
Appropriations to agriculture catastrophic loss reserve	–	–	–	–	803	–	–	–	–	–	–	–	(803)	–	–	–
Dividends paid to shareholders	–	–	–	–	–	–	–	–	–	–	–	–	(402)	(402)	(1,345)	(1,747)
Change in ownership interest in subsidiaries	–	–	–	–	–	–	–	–	–	–	55	–	–	55	(265)	(210)
Balance at 31 December 2015	42,424	19,925	5,840	5,770	1,300	2,232	(3)	594	(49)	1,101	(15,010)	(693)	52,670	116,101	41,094	157,195

* This reserve contains both statutory and discretionary surplus reserves.

The opening balances of available-for-sale investment revaluation reserve and share of other comprehensive income of associates and joint ventures are restated due to adoption of Amendment to IAS 1, as disclosed.

Consolidated Statement of Cash Flows

For the year ended 31 December 2016

(Amounts in millions of Renminbi, unless otherwise stated)

	Notes	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**25,319**	33,970
Adjustments for:			
Investment income	6	**(33,075)**	(44,336)
Exchange gains		**(688)**	(632)
Share of profits and losses of associates and joint ventures		**(10,386)**	(6,491)
Depreciation of property and equipment	11, 28	**1,969**	2,131
Amortisation of intangible assets	11, 29	**169**	147
Amortisation of prepaid land premiums	11, 30	**149**	158
Disposal gains from investment properties, property and equipment, intangible assets and prepaid land premiums	7	**(161)**	(121)
Finance costs except for interests credited to policyholders	9	**2,761**	3,404
Impairment losses on receivables and other assets	11	**408**	703
Investment expenses		**474**	222
Operating cash flows before working capital changes		**(13,061)**	(10,845)
Increase in insurance receivables, net		**(13,171)**	(3,403)
Increase in investment contract liabilities for policyholders		**10,769**	2,081
Increase in insurance contract liabilities, net		**26,350**	28,361
Increase in other assets, net		**(2,130)**	(329)
Increase in other liabilities and accruals, net		**22,999**	11,224
Cash generated from operations		**31,756**	27,089
Income tax paid		**(7,925)**	(6,648)
Net cash from operating activities		**23,831**	20,441
CASH FLOWS FROM INVESTING ACTIVITIES			
Interests received		**28,356**	27,811
Dividends received		**6,865**	6,195
Decrease in policy loans		**522**	1,258
Capital expenditures		**(3,621)**	(3,551)
Proceeds from disposals of investment properties, property and equipment, intangible assets and prepaid land premiums		**302**	389
Investments in associates and joint ventures		**(22,914)**	(11,539)
Purchases of investments		**(395,820)**	(278,465)
Proceeds from disposals of investments		**297,775**	252,495
Payments for investment expenses		**(474)**	(222)
Decrease in term deposits, net		**56,326**	16,531
Net cash (used) in/generated from investing activities		**(32,683)**	10,902

Consolidated Statement of Cash Flows (continued)

For the year ended 31 December 2016
(Amounts in millions of Renminbi, unless otherwise stated)

	Note	2016	2015
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares by subsidiaries		**12**	–
Increase/(decrease) in securities sold under agreements to repurchase		**4,835**	(7,257)
Issue of bonds payable		**15,000**	–
Repayment of bonds payable		**(8,000)**	(8,500)
(Repayment)/proceeds to/from banks and other financial institutions		**(980)**	293
Interests paid		**(2,887)**	(3,704)
Dividends paid		**(2,533)**	(1,747)
Net cash generated from/(used) in financing activities		**5,447**	(20,915)
Net (decrease)/increase in cash and cash equivalents		**(3,405)**	10,428
Cash and cash equivalents at beginning of the year		**49,884**	39,307
Effects of exchange rate changes on cash and cash equivalents		**250**	149
Cash and cash equivalents at end of the year		**46,729**	49,884
Analysis of balances of cash and cash equivalents			
Cash on hand	17	**1**	1
Demand deposits and deposits with banks with original maturity of less than three months	17	**39,803**	34,022
Securities purchased under resale agreements with original maturity of less than three months	17	**6,925**	15,861
Cash and cash equivalents at end of the year		**46,729**	49,884

(Amounts in millions of Renminbi, unless otherwise stated)

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 2016, the Company's subsidiaries mainly provided integrated financial products and services and were 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 Appendix 16 to Rules Governing the Listing of Securities ("Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") and Hong Kong Companies Ordinance ("CO").

2.2 BASIS OF PREPARATION

The consolidated financial statements have been prepared under the historical cost basis, except for investment properties, certain financial instruments and insurance contract liabilities. These consolidated 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.

2.3 APPLICATIONS OF NEW AND REVISED IFRSs

The Group has applied the following amendments to IFRSs for the first time effective for the current year's financial statements.

Amendments to IFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*
Amendments to IAS 1	*Disclosure Initiative*
Amendments to IAS 16 and IAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*
Amendments to IAS 16 and IAS 41	*Agriculture: Bearer Plants*
Amendments to IFRS 10, IFRS 12 and IAS 28	*Investment Entities: Applying the Consolidation Exception*
Amendments to IFRSs	*Annual Improvements to IFRSs 2012-2014 Cycle*

Amendments to IAS 1 – Disclosure Initiative

The Group has applied the amendments to IAS 1 Disclosure Initiative for the first time in the current year. The amendments to IAS 1 clarify that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, and give guidance on the bases of aggregating and disaggregating information. However, the amendments reiterate that an entity should consider providing additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users of financial statements to understand the impact of particular transactions, events and conditions on the entity's financial position and financial performance.

In the past, share of items of other comprehensive income ("OCI") arising from associates and joint ventures were grouped by nature into OCI of the Company and its subsidiaries.

(Amounts in millions of Renminbi, unless otherwise stated)

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

Amendments to IAS 1 – Disclosure Initiative *(continued)*

Commencing from 1 January 2016, share of OCI from associates or joint ventures accounted for using the equity method, in aggregate, are separated into two items for OCI that:

- will not be reclassified subsequently to profit or loss; and
- will be reclassified subsequently to profit or loss when specific conditions are met.

As a result of these changes, certain items of OCI, which amounted to RMB548 million for the year ended 31 December 2015, in the consolidated statement of comprehensive income were singled out and reclassified to conform to these new requirements. A reserve with an opening balance of RMB594 million (1 January 2015: RMB191 million) attributable to the parent is also separately established as at 1 January 2016 to record the cumulative share of OCI arising from associates and joint ventures in the consolidated statement of changes in equity. The opening balance attributable to the parent of available-for-sale investment revaluation reserve exclude amounts arising from associates and joint ventures and was reduced by RMB594 million (1 January 2015: RMB191 million). The Group has applied these changes retrospectively.

Apart from this, none of the above amendments to IFRSs, have had a material impact on the financial position or performance of the Group for the year ended 31 December 2016.

2.4 ISSUED BUT NOT YET EFFECTIVE IFRSs

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

IFRS 9	*Financial Instruments*[1]
IFRS 15	*Revenue from Contracts with Customers*[1]
IFRS 16	*Leases*[2]
IFRIC 22	*Foreign Currency Transactions and Advance Consideration*[1]
Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*[1]
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*[1]
Amendments to IFRS 15	*Clarifications to IFRS 15 Revenue from Contracts with Customers*[1]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
Amendments to IAS 7	*Disclosure Initiative*[4]
Amendments to IAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*[4]
Amendments to IAS 40	*Transfers of Investment Property*[1]
Amendments to IFRSs	*Annual Improvements to IFRS Standards 2014-2016 Cycle*[5]

[1] Effective for annual periods beginning on or after 1 January 2018.
[2] Effective for annual periods beginning on or after 1 January 2019.
[3] Effective for annual periods beginning on or after a date to be determined.
[4] Effective for annual periods beginning on or after 1 January 2017.
[5] Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018, as appropriate.

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

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 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

Key requirements of IFRS 9:

- all recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- with regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

- in relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

- the new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, 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 retrospective quantitative effectiveness test has been removed. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

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

IFRS 9 – Financial Instruments *(continued)*

Application of IFRS 9 in the future may have following impacts on the financial assets of the Group:

- The Group classified equity related investments of RMB112,222 million as available-for-sale financial assets as at 31 December 2016. Upon application of IFRS 9, fair value changes arising from these financial instruments will be recognised as profit or loss instead of an investment revaluation reserve in the equity, except for those that are eligible and the Group elects to designate as FVTOCI, in which fair value changes arising from these financial assets will not be recycled to the profit or loss upon their disposals and only dividend income from these financial assets will be recognised in profit or loss;

- The Group classified debt investments of RMB168,778 million as loans and receivables as at 31 December 2016. Some of these investments may fail to satisfy that the contractual cash flows characteristics that are solely payments of principal and interest on the principal outstanding. As a consequence, these investments may have to be measured subsequently at fair values instead of amortised costs. Fair value changes arising from these financial instruments will be recognised in profit or loss;

- The Group classified debt investments of RMB114,591 million as available-for-sale financial assets as at 31 December 2016. Some of these investments may fail to satisfy that they are held within a business model whose objective is both to collect the contractual cash flows that are solely payments of principal and interest on the principal outstanding and to sell financial assets. Fair value arising from these financial instruments will be recognised in profit or loss instead of other comprehensive income; and

- Financial assets measured at amortised costs under IFRS 9 and debt instruments classified as FVTOCI will be subject to impairment provision of IFRS 9. Generally, the impairment model of IFRS 9 will result in earlier loss recognition than that of IAS 39; and

- The Group has limited hedging activities and therefore the changes in IFRS 9 hedging accounting should not have material impacts on the financial statements.

The Group has not yet launched a detailed study on the impact of implementation of IFRS 9 and therefore the above analysis is preliminary. It is based on the facts and circumstances as at 31 December 2016 and subject to changes. In particular, interaction of IFRS 9 with the new standard on insurance contracts ("IFRS 17") to be issued by IASB has to be assessed for an overall analysis of the impacts of IFRS 9. The Group is unable to provide an estimate of these effects when these financial statements are authorised.

Amendments to IFRS 4 – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

In September 2016, IFRS 4 was amended to address issues arising from the different effective dates of IFRS 9 and the upcoming IFRS 17.

The amendment provides entities meeting a criterion for engaging in predominantly insurance activities with the option to continue current IFRS accounting and to defer the application of IFRS 9 until the earlier of the application of the new insurance Standard or periods beginning on or after 1 January 2021. The assessment of predominance has to be made at the reporting entity level and at the annual reporting date immediately preceding 1 April 2016. Thereafter it should not be reassessed, unless there is a significant change in the entity's activities that would trigger a mandatory reassessment.

Separately, the amendment provides all entities with contracts within the scope of IFRS 4 with an option to apply IFRS 9 in full but to make adjustments to profit or loss to remove the impact of IFRS 9, compared with IAS 39, for designated qualifying financial assets. This is referred to as the 'overlay approach' and is available on an asset-by asset basis with specific requirements around designations and de-designations.

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

Amendments to IFRS 4 – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts *(continued)*

During the year, the Group performed an assessment of these amendments. As at 31 December 2015, the percentage of the total carrying amount of its liabilities connected with insurance relative to the total carrying amount of all its liabilities was greater than 90%. The Group initially concluded that its activities are predominantly connected with insurance as at 31 December 2015. The Group, however, has not yet decided to apply the temporary exemption in its reporting period commencing on 1 January 2018. One of the considerations is the alignment of Group's financial statements prepared under IFRS and those prepared under China Accounting Standard ("CAS"). MOF recently consulted the public on changes in CAS in respect of financial instruments. These changes follow closely IFRS 9 but their effective dates have not yet been decided. The Group would like to adopt IFRS 9 in the IFRS financial statements and the proposed amendments to CAS in CAS financial statements in the same financial year.

The Company's separate financial statements are not qualified for this temporary exemption.

IFRS 15 – Revenue from Contracts with Customers

IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

In 2016, the IASB issued Clarifications to IFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

As the Group predominantly carries out insurance business, potentially the adoption of IFRS 15 will only have impacts on service income recognised by:

- the non-life insurance sector on handling certain taxes or levies for relevant authorities;
- the life or health insurance sector on managing certain contracts classified as investment contracts;
- the asset management sector on asset management services, including performance bonuses.

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

IFRS 15 – Revenue from Contracts with Customers *(continued)*

Service income of these sectors are disclosed as other income in the financial statements.

The Group, however, has not yet launched a full study on the impacts of IFRS 15. The above analysis is preliminary and based on the facts and circumstances as at 31 December 2016. The Group is unable to provide an estimate of these effects when these financial statements are authorised.

IFRS 16 – Leases

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related interpretations when it becomes effective.

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low value assets.

As at 31 December 2016, the Group had non-cancellable operating lease commitments of RMB2,284 million as disclosed in note 46. A preliminary assessment indicates that these arrangements will meet the definition of a lease under IFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of IFRS 16. Apart from this, the directors of the Company do not anticipate that the application of IFRS 16 in the future will have a material impact on the Group's consolidated financial statements.

Amendments to IFRS 2 – Classification and Measurement of Share-based Payment Transactions

The amendments clarify the following:

- In estimating the fair value of a cash-settled share-based payment, the accounting for the effects of vesting and non-vesting conditions should follow the same approach as for equity-settled share-based payments.

- Where tax law or regulation requires an entity to withhold a specified number of equity instruments equal to the monetary value of the employee's tax obligation to meet the employee's tax liability which is then remitted to the tax authority, i.e. the share-based payment arrangement has a 'net settlement feature', such an arrangement should be classified as equity-settled in its entirety, provided that the share-based payment would have been classified as equity-settled had it not included the net settlement feature.

- A modification of a share-based payment that changes the transaction from cash-settled to equity-settled should be accounted for as follows:

  i) the original liability is derecognised;

  ii) the equity-settled share-based payment is recognised at the modification date fair value of the equity instrument granted to the extent that services have been rendered up to the modification date; and

  iii) any difference between the carrying amount of the liability at the modification date and the amount recognised in equity should be recognised in profit or loss immediately.

The directors of the Company do not anticipate that the application of the amendments in the future will have a significant impact on the Group's consolidated financial statements.

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

Amendments to IAS 7-Disclosure Initiative

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities including both changes arising from cash flows and non-cash changes. Specially, the amendments require the following changes in liabilities arising from financing activities to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

The application of the amendments will result in additional disclosures on the Group's financing activities, specifically reconciliation between the opening and closing balances in the consolidated statement of financial position for liabilities arising from financing activities will be provided on application.

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. 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.

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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(1) Basis of consolidation *(continued)*

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 relevant components of equity including reserves 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 after re-attribution of the relevant equity component, 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 attributable to the owners of the Company. 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 associates and joint ventures

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.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates or joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, an investment in an associate or a joint venture 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 or joint venture. When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), 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 or joint venture.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(2) Investment in associates and joint ventures *(continued)*

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, 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.

When the Group increases its ownership interests in an associate or a joint venture and the investee continues to be accounted for as an associate or a joint venture, any excess of the cost of this additional investment over the Group's additional share of the net fair value of the identifiable assets and liabilities of the investee (measured as at the date of the additional investment) is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's additional share of the net fair value of identifiable assets and liabilities (measured as at the date of the additional investment) over the cost of the additional investment, after reassessment, is recognised immediately in profit or loss in the period in which the additional investment is acquired. There is no re-measurement of the carrying amount of the previously held ownership interests in the associate or the joint venture, nor of the fair value of the net identifiable assets and the resulting goodwill attributable to the previously held interests in the associate or the joint venture. Any gain or loss recognised in other comprehensive income previously shared by the Group remains in the equity and is not reclassified to the profit or loss. The Group commences accounting for its share of the profit or loss and other comprehensive income of the associate or the joint venture according to the new proportionate equity interests when the additional ownership 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 or a joint venture. 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.

When the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset within the scope of IAS 39, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate or joint venture at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing the relevant interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate or joint venture 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.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(2) Investment in associates and joint ventures *(continued)*

When the Group reduces its ownership interest in an associate or a joint venture 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 or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

(3) 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.

(4) Foreign currency translation

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

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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(4) Foreign currency translation *(continued)*

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.

(5) 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 purchasing or selling 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 always measured at fair value through profit or loss 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)*

(5) 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.

Measured at fair value

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.

Measured at cost less impairment

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. The Group’s financial assets that are classified as loans and receivables include cash equivalents, terms deposits, investments classified as loans and receivables and miscellaneous receivables. Insurance receivables and policy loans are also accounted for as if they were loans and receivables. 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)*

(5) Financial assets *(continued)*

Subsequent measurement (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)*

(6) 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 on 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 described below. 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)*

(6) 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 at the date of the impairment's reversal had the impairment not been recognised.

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.

(7) 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.

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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(7) Financial liabilities *(continued)*

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 always measured at fair value through profit or loss 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, bonds payable, 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. Policyholders' dividends and amounts due to reinsurers are accounted for as if they were other financial liabilities.

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

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.

(8) 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 has previously regarded certain credit insurance 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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(9) Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

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

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

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

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

Hedges which meet the strict criteria for hedge accounting and are classified as cash flow hedges are accounted for as described below.

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.

(Amounts in millions of Renminbi, unless otherwise stated)

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(10) Fair value measurement

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. 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.

(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.

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	1.50%to 19.40%
Office equipment, furniture and fixtures	7.50%to 32.33%
Motor vehicles	6.00% to 24.25%

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(12) Property and equipment and depreciation *(continued)*

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.

(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) Product classification and unbundling

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. Details of significant insurance risk testing are set out below. Insurance contracts may also transfer financial risk to the Group.

Investment contracts are those contracts that transfer significant financial risk but no or insignificant insurance risk. Financial risk is the risk of a possible future change in one or more specified interest rates, a financial instrument price, a commodity price, a foreign exchange rate, an index of price or rates, a credit rating or a credit index or other variables, provided in the case of a non-financial variable, the variable is not specific to a party to the contract.

Some contracts issued by the Group may contain both an insurance component and a deposit component. If these two components are distinct and can be measured reliably, the underlying amounts are unbundled. Any premiums relating to the insurance risk component are accounted for on the same basis as insurance contracts and the remaining element is accounted for as an investment contract.

The Group test the significance of insurance risk transfer at initial recognition of all relevant contracts. Once a contract has been classified as an insurance contract, it remains an insurance contract up to derecognition, even if the insurance risk subsequently reduces significantly. Investment contracts can, however, be reclassified as insurance contracts after initial recognition if insurance risk becomes significant.

(18) Insurance contract liabilities

The insurance contract liabilities of the Group include long-term life and 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 health insurance policies are grouped into certain measurement units by lines of business. For long-term life and health insurance policies, the measurement unit is each individual insurance contract.

Unearned premium reserves

Unearned premium reserves are recognised at inception of non-life and short-term health insurance contracts until the insurance coverage expires. The unearned premium reserves represent premiums received for risks that have not yet expired. At inception of the contract, it represents premiums received or receivable minus relevant acquisition costs. Acquisition costs in relation to the sale of new insurance contracts such as handling charges and commissions, underwriting personal expenses, business tax and surcharges, insurance protection expenses and other incremental costs are recorded as expenses in profit or loss against an equal and opposite amount of premium being recognised as revenue. Subsequent to the initial recognition, unearned premium reserves are released on a 1/365 or 1/24 basis according to the insurance coverage period. When any deficiency arises from performing the liability adequacy tests as described below, unearned premium reserves have to be adjusted to reflect the deficiency.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(18) Insurance contract liabilities *(continued)*

Insurance contract liabilities other than unearned premium reserves

Other than unearned premium reserve, insurance contract liabilities are measured based on reasonable estimates of the payments the Group will make to fulfil the relevant obligations under the insurance contracts. These estimates represent the difference between expected future cash outflows and inflows under such contracts, i.e., the expected future net cash outflows.

Expected future net cash outflows over the entire coverage and settlement period are taken into account in measuring insurance contract liabilities. For insurance policies with a guaranteed renewal option, the coverage period is extended to the date when the option to renew ceases to be guaranteed because the Group acquires the right to re-price the risk under the contract.

- 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 acquisitions, administration and claims handling, including policy maintenance expenses and claim handling expenses.

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

Both risk margin and residual margin are separately recognised for long-term life and health insurance contracts. Risk margins are recognised for claim reserves.

- Risk margin represents provision for the uncertainty associated with the future net cash flows. Risk margin is determined using the scenario comparison approach or the confidence interval approach and based on the most recent experience of the Group as well as by reference to the industry benchmark. Diversification effect is not considered in arriving at risk margins.

- 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. Residual margins are not re-measured at the end of each reporting date. They are amortised on the basis of the effective sums insured or number of policies over the entire coverage period.

Reasonable estimates in expected future net cash flows are determined based on information currently available as at the end of the reporting 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 material. For short contracts with durations less than 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)*

(18) Insurance contract liabilities *(continued)*

Liability adequacy tests

At the end of each reporting period, liability adequacy tests are performed to ensure the adequacy of the unearned premium reserve. If, after applying a risk margin, the amount of expected present value of cash outflows minus the expected present value of cash inflows exceeds the carrying amount of the unearned premium reserve, the entire deficiency is recognised in profit or loss of the period in which the deficiency arises. Unearned premium reserve may have to be adjusted if there is any deficiency arising from the performance of these tests.

Derecognition of insurance contract liabilities

Insurance contract liabilities are derecognised when they are discharged or cancelled, or expire.

(19) 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 time value of money. Provisions shall be reviewed at the end of the reporting period and adjusted to reflect the current best estimate.

(20) Employee benefits

Retirement benefits cost and termination benefits

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, and will not be reclassified to profit or loss.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(20) Employee benefits *(continued)*

Retirement benefits cost and termination benefits (continued)

The remeasurements arising from actuarial gains and losses recognised in other comprehensive income are accumulated in the Group's reserve headed 'actuarial (losses)/gains on pension benefit obligation' and is transferred to retained profits when the defined benefit plans terminates. 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 the first two components of its 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.

A liability for a termination benefit is recognised at the earlier of when the Group can no longer withdraw the offer of the termination benefit and when the entity recognises any related restructuring costs.

Short-term and other long-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another IFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

Liabilities recognised in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date. Any changes in the liabilities' carrying amounts resulting from service cost, interest and remeasurements are recognised in profit or loss except to the extent that another IFRS requires or permits their inclusion in the cost of an asset.

(21) 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.

When policyholders' dividends are declared, they are accounted for as financial liabilities and initially measured at fair value and subsequently measured at amortised costs.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(22) 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.

The Group as lessee

Operating lease payments, including the cost of acquiring land held under operating leases, 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 for own use

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 and equipment.

(23) Revenue recognition

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below:

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 according to the total premiums stated in the contracts.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(23) 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.

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.

(24) Reinsurance

The Group cedes insurance risk in the normal course of business for part of its businesses. Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the insurance contract liabilities or settled claims associated with the reinsured policies and are in accordance with the related reinsurance contracts.

Reinsurance assets are reviewed for impairment at each reporting date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Group may not receive all outstanding amounts due under the terms of the contract and the effect has a reliably measurable impact on the amounts that will receive from the reinsurer. The impairment loss is recorded in the income statement.

Ceded reinsurance arrangements do not relieve the Group from its obligations to policyholders.

The Group also assumes reinsurance risk in the normal course of business for insurance contracts where applicable. Premiums and claims on assumed reinsurance are recognised as revenue and expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable to reinsurers are estimated in a manner consistent with the related reinsurance contracts. Receivables and payables arising from reinsurance contracts are measured at amortised costs and not offset for presentation purposes.

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. Reinsurers' share of loss and loss adjustment expense reserves also includes their share of risk margin to the gross balance of loss and loss adjustment expense reserves.

Premiums and claims are presented on a gross basis for both ceded and assumed reinsurance.

Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

Reinsurance contracts that do not transfer significant insurance risk are accounted for as financial instruments. These are deposit assets or financial liabilities that are recognised based on the consideration paid or received less any explicit identified premiums or fees to be retained by the cedant. Investment income or expense on these contracts is accounted for using the effective interest method when accrued.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(25) 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.

(26) 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.

(27) 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).

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(28) 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

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures 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, associates and joint ventures, 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 presumption is rebutted by facts and circumstances. The presumption is rebutted when the investment properties are depreciable and are held within the context of a business model whose objective is to substantially consume over time the economic benefits embodied in the investment properties, 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 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 affect the classification of the contract at initial recognition.

When a contract transfers significant insurance risk and financial risks, the Group has reached a judgment on whether the financial risks relate to a deposit component that can be measured separately and the Group's accounting policies fully reflect the rights and obligations from such deposit component. The results of this judgement would affect the unbundling 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.

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) 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 26 to these consolidated financial statements.

(4) Consolidations of structured entities

The Group has interest in a range of structured entities in its daily operations for investment purposes. These entities vary in legal forms and investors' rights on removals of the managers, changing underlying assets and liquidations. Certain subsidiaries of the Company are also engaged in launching and managing these structured entities. The Group has to assess whether it has control over these entities. The decision mainly depends on whether the Group is the investment manager, whether or not the Group has powers over changing any investment decisions and investment managers, and how the returns can be affected by these powers.

(5) 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.

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

Estimation uncertainty

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

(1) Impairment of loans and receivables

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

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

Loans and receivables include cash equivalents, insurance receivables, term deposits, restricted statutory deposits, investments classified as loans and receivables and miscellaneous receivables. The carrying values of these assets are disclosed in the consolidated statement of financial position and respective notes.

(2) Valuation of insurance contract liabilities

At the end of the reporting period, when measuring the insurance contract reserve, the Group needs to make reasonable estimates in 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.

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 liquidity premiums. The Group set the premiums to be 30-101 basis points as at 31 December 2016 (31 December 2015: 30-111 basis points). Accordingly, the discount rates including premiums, as at 31 December 2016, were 2.97%-5.69% (31 December 2015: 3.37%-6.06%).

  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 2016 were 5.00%-5.50% (31 December 2015: 5.00%-5.50%).

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

  The discount rates are the assumptions which have the most significant impacts on the measurement on the long-term life insurance contract liabilities. The changes of these assumptions during the year increased long-term life insurance contract liabilities by RMB2,320 million (31 December 2015: RMB696 million).

(Amounts in millions of Renminbi, unless otherwise stated)

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

Estimation uncertainty *(continued)*

(2) Valuation of insurance contract liabilities (continued)

- Mortality, morbidity and disability rates are based on the Group's own 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 and historical data. 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 economic environment 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.

- Future policyholder dividends 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. Future policyholder dividends for individual participating insurance business of the Group are measured assuming that the Group will award to policyholders 70% of the distributable surplus calculated according to these contracts.

- The Group determines the risk margin assumptions (as a percentage of discounted net cash flows) for the liability adequacy test over unearned premium reserves as follows:

Type	2016	2015
Agricultural insurance	33.8%	33.8%
Motor vehicle insurance	3.0%	3.0%
Other non-life insurance	6.0%	6.0%
Short-term health insurance	3.0%	3.0%

- The Group determines the risk margin assumptions (as a percentage of discounted net cash flows) of claim reserves as follows:

Type	2016	2015
Agricultural insurance	33.3%	33.3%
Motor vehicle insurance	2.5%	2.5%
Other non-life insurance	5.5%	5.5%
Short-term health insurance	2.5%	2.5%

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

Estimation uncertainty *(continued)*

(2) Valuation of insurance contract liabilities (continued)

The Group considers risk margin for discount rate, mortality and morbidity and expense assumptions to compensate for the uncertain amount and timing of future cash flow. The Group determines the risk margin level itself using an appropriate estimation technique as the regulations have not imposed any specific requirement on it. With the implementation of "China Risk Oriented Solvency System" ("C-ROSS") issued by the China Insurance Regulatory Commission ("CIRC") with effect in 2016, most insurance companies in the PRC insurance market have applied the scenario comparison method to determine the risk margin for long-term life insurance contract liabilities in the financial statements and for solvency margin requirement under C-ROSS. In consideration of the fact that the scenario comparison method is widely used by many insurance companies in the PRC insurance market in 2016 and applying the widely used method will improve comparability of its financial statements with those of other insurance companies in the PRC, the Group has changed the estimation technique to using the scenario comparison method from that of cost of capital method used previously to determine the risk margin for long-term life insurance contract liabilities for the year ended 31 December 2016. This change of the estimation technique during the year decreased the long-term life insurance contract liabilities by RMB2,077 million.

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, premium rates 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.

The carrying values of insurance contract liabilities are disclosed in note 37.

(3) Fair values of identifiable assets acquired and liabilities assumed in a business acquisition and the resulting gain on bargain purchase

As disclosed in note 26, the Group acquired approximately 19.99% of the total issued shares of Hua Xia Bank Co., Limited ("Hua Xia Bank") during the year. Due to the proximity of the acquisition to the Group's year end, the Group is still in the process of completing the accounting of this transaction, which is permitted by IFRS 3 Business Combinations. As such, the fair values of identifiable assets acquired and liabilities assumed and the resulting gain on bargain purchase are provisional based on the latest information available to the Group. Shall new information about facts and circumstances that existed as of the acquisition date are present after the date of approving these consolidated financial statements and have an impact to the provisional amounts, the Group will adjust these amounts retrospectively as if the adjustments are made at the acquisition date.

(4) Fair value measurement of financial assets based on unobservable inputs

For financial reporting purposes, fair value measurement of certain available-for-sale financial assets are based on unobservable inputs that are significant to these measurements. Details of these inputs and the corresponding valuation methods are set out in note 45.

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

Estimation uncertainty *(continued)*

(5) 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 27.

(6) 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 39 to these consolidated financial statements.

4. OPERATING SEGMENT INFORMATION

The Group's operating segments are presented in a manner consistent with the internal management reporting provided to the management for deciding how to allocate resources and for assessing performance.

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 personal and corporate customers including automobile insurance, agricultural, property and liabilities 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 businesses 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 2016

	Non-life insurance	Life insurance	Health insurance	Asset management	Head-quarters	Others	Eliminations	Total
Net earned premiums	270,783	105,162	20,925	–	–	–	–	396,870
Net reinsurance commission income	10,091	233	195	–	–	–	–	10,519
Investment income	15,280	15,720	1,782	452	4,017	121	(4,297)	33,075
Other income	1,579	621	93	1,316	3	229	(982)	2,859
TOTAL INCOME – SEGMENT REVENUE	297,733	121,736	22,995	1,768	4,020	350	(5,279)	443,323
– External income	297,570	121,498	22,982	1,202	(17)	88	–	443,323
– Intersegment income	163	238	13	566	4,037	262	(5,279)	–
Net claims and policyholders' benefits	172,087	109,187	20,479	–	–	–	–	301,753
Handling charges and commissions	46,578	6,900	666	–	–	–	(480)	53,664
Finance costs	1,208	1,752	456	2	887	28	–	4,333
Exchange gains	(415)	(174)	(2)	(1)	(96)	–	–	(688)
Other operating and administrative expenses	59,530	6,972	1,322	1,039	726	330	(591)	69,328
TOTAL BENEFITS, CLAIMS AND EXPENSES	278,988	124,637	22,921	1,040	1,517	358	(1,071)	428,390
Share of profits and losses of associates and joint ventures	6,176	3,348	–	5	908	–	(51)	10,386
PROFIT BEFORE TAX	24,921	447	74	733	3,411	(8)	(4,259)	25,319
Income tax (expense)/credit	(4,439)	5	(71)	(190)	41	(13)	29	(4,638)
PROFIT/(LOSS) FOR THE YEAR – SEGMENT RESULTS	20,482	452	3	543	3,452	(21)	(4,230)	20,681

(Amounts in millions of Renminbi, unless otherwise stated)

4. OPERATING SEGMENT INFORMATION *(continued)*

Segment revenue and results for the year ended 31 December 2015

	Non-life insurance	Life insurance	Health insurance	Asset management	Head-quarters	Others	Eliminations	Total
Net earned premiums	245,110	89,850	14,351	–	–	–	–	349,311
Net reinsurance commission income/(expense)	9,710	87	(119)	–	–	–	–	9,678
Investment income	20,302	21,046	2,070	640	3,731	(45)	(3,408)	44,336
Other income	1,465	327	101	1,139	18	347	(711)	2,686
TOTAL INCOME – SEGMENT REVENUE	276,587	111,310	16,403	1,779	3,749	302	(4,119)	406,011
– External income	276,480	111,207	16,397	1,391	388	148	–	406,011
– Intersegment income	107	103	6	388	3,361	154	(4,119)	–
Net claims and policyholders' benefits	153,819	97,996	14,328	–	–	–	–	266,143
Handling charges and commissions	31,541	4,307	448	–	–	–	(333)	35,963
Finance costs	1,638	1,612	407	8	907	31	–	4,603
Exchange gains	(331)	(183)	(6)	(1)	(111)	–	–	(632)
Other operating and administrative expenses	62,838	6,819	1,431	895	676	430	(634)	72,455
TOTAL BENEFITS, CLAIMS AND EXPENSES	249,505	110,551	16,608	902	1,472	461	(967)	378,532
Share of profits and losses of associates and joint ventures	3,141	2,701	–	(12)	968	–	(307)	6,491
PROFIT/(LOSS) BEFORE TAX	30,223	3,460	(205)	865	3,245	(159)	(3,459)	33,970
Income tax (expense)/credit	(6,340)	96	69	(230)	91	13	(4)	(6,305)
PROFIT/(LOSS) FOR THE YEAR – SEGMENT RESULTS	23,883	3,556	(136)	635	3,336	(146)	(3,463)	27,665

(Amounts in millions of Renminbi, unless otherwise stated)

4. OPERATING SEGMENT INFORMATION *(continued)*

Segment assets and liabilities as at 31 December 2016 and 2015, and other segment information for the year ended 31 December 2016 and 2015

	Non-life insurance	Life insurance	Health insurance	Asset management	Head-quarters	Others	Eliminations	Total
31 December 2016								
Segment assets	**480,354**	**375,499**	**45,224**	**9,531**	**108,320**	**6,586**	**(93,365)**	**932,149**
Segment liabilities	**357,480**	**342,629**	**39,548**	**1,800**	**20,190**	**2,656**	**(3,148)**	**761,155**
Other segment information:								
Capital expenditures	**2,511**	**504**	**46**	**245**	**29**	**286**	**–**	**3,621**
Depreciation and amortisation	**1,823**	**158**	**50**	**31**	**58**	**113**	**54**	**2,287**
Interest income	**12,378**	**12,836**	**1,238**	**143**	**168**	**5**	**–**	**26,768**
Impairment losses	**545**	**569**	**28**	**(13)**	**441**	**–**	**–**	**1,570**
31 December 2015								
Segment assets	421,793	357,560	32,831	9,087	105,728	5,588	(89,119)	843,468
Segment liabilities	312,499	322,467	29,421	1,717	20,369	2,647	(2,847)	686,273
Other segment information:								
Capital expenditures	2,319	495	71	322	46	298	–	3,551
Depreciation and amortisation	1,945	191	38	28	58	122	54	2,436
Interest income	12,458	13,419	1,227	99	277	6	–	27,486
Impairment losses	727	17	1	63	129	–	(69)	868

The headquarters, non-life and life segments hold equity interests of 0.91%, 6.45% and 6.70% (31 December 2015: 0.91%, 6.45% and 6.70%), respectively, in the Industrial Bank Co., Ltd. ("Industrial Bank"), an associate of the Group. These interests are accounted for as available-for-sale financial assets in the financial statements of the Company and of other principal subsidiaries. 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

	2016	2015
(a) Gross written premiums		
Long-term life insurance premiums	117,764	96,508
Short-term health insurance premiums	10,804	10,062
Non-life insurance premiums	311,306	281,817
Total	439,874	388,387
(b) Premiums ceded to reinsurers		
Long-term life insurance premiums ceded to reinsurers	(711)	(465)
Short-term health insurance premiums ceded to reinsurers	(2,012)	(1,631)
Non-life insurance premiums ceded to reinsurers	(30,026)	(29,159)
Total	(32,749)	(31,255)
Net written premiums	407,125	357,132
(c) Change in unearned premium reserves		
Change in gross unearned premium reserves	(11,150)	(7,542)
Less: Change in reinsurer's share of unearned premium reserves	895	(279)
Net	(10,255)	(7,821)

6. INVESTMENT INCOME

	2016	2015
Dividend, interest and rental income (a)	32,253	32,410
Realised gains (b)	2,175	12,396
Fair value losses (c)	(191)	(305)
Impairment losses (d)	(1,162)	(165)
Total	33,075	44,336

(Amounts in millions of Renminbi, unless otherwise stated)

6. INVESTMENT INCOME *(continued)*

(a) Dividend, interest and rental income

	2016	2015
Operating lease income from investment properties	**423**	343
Interest income		
Current and term deposits	**7,306**	9,539
Debt securities		
– Held-to-maturity	**5,894**	6,081
– Available-for-sale	**5,554**	4,940
– Held-for-trading	**81**	72
Derivative financial assets	**118**	29
Loans and receivables	**7,815**	6,825
Subtotal	**26,768**	27,486
Dividend income		
Equity securities and mutual funds		
– Available-for-sale	**4,418**	4,113
– Held-for-trading	**644**	468
Subtotal	**5,062**	4,581
Total	**32,253**	32,410

(b) Realised gains

	2016	2015
Debt securities		
– Available-for-sale	**530**	215
– Held-for-trading	**24**	40
Equity securities and mutual funds		
– Available-for-sale	**317**	11,734
– Held-for-trading	**295**	407
– Derivative financial instrument	**1,009**	–
Total	**2,175**	12,396

The realised gain of a derivative financial instrument arose from an agreement to purchase interests in equity instrument at a price predetermined by a formula agreed by the Group and the third party. The amount represents the difference between final consideration paid by the Group and the fair value of this equity instrument when the transaction was completed. Further details of this transaction are disclosed in note 26(b)(3).

(Amounts in millions of Renminbi, unless otherwise stated)

6. INVESTMENT INCOME *(continued)*

(c) Fair value (losses)/gains

	2016	2015
Debt securities		
– Held-for-trading	17	20
Equity securities and mutual funds		
– Held-for-trading	(432)	185
Investment properties *(note 27)*	224	(510)
Total	(191)	(305)

(d) Impairment losses

	2016	2015
Debt securities		
– Available-for-sale	–	26
Equity securities and mutual funds		
– Available-for-sale	1,162	139
Total	1,162	165

7. OTHER INCOME

	2016	2015
Commission income arising from the tax collection of motor vehicles and vessels	842	808
Management fee charged to policyholders	324	206
Disposal gains from investment properties, property and equipment, intangible assets and prepaid land premiums	161	121
Government grants *(note)*	165	138
Others	1,367	1,413
Total	2,859	2,686

Government grants of the Group mainly include agricultural insurance subsidies and subsidies for its insurance business operated in Tibet.

(Amounts in millions of Renminbi, unless otherwise stated)

8. CLAIMS AND POLICYHOLDERS' BENEFITS

	2016		
	Gross	**Ceded**	**Net**
Life insurance death and other benefits paid	**113,583**	**25**	**113,558**
Claims incurred	**203,236**	**24,162**	**179,074**
– Short-term health insurance	**9,180**	**2,194**	**6,986**
– Non-life insurance	**194,056**	**21,968**	**172,088**
Changes in long-term life insurance contract liabilities	**5,633**	**50**	**5,583**
Policyholder dividends	**3,538**	**–**	**3,538**
Total	**325,990**	**24,237**	**301,753**

	2015		
	Gross	Ceded	Net
Life insurance death and other benefits paid	93,319	19	93,300
Claims incurred	180,684	21,104	159,580
– Short-term health insurance	7,734	1,975	5,759
– Non-life insurance	172,950	19,129	153,821
Changes in long-term life insurance contract liabilities	9,138	24	9,114
Policyholder dividends	4,149	–	4,149
Total	287,290	21,147	266,143

9. FINANCE COSTS

	2016	2015
Interest expenses		
Bonds payable	**1,928**	2,131
Interest credited to policyholders *(note 38)*	**1,572**	1,199
Securities sold under agreements to repurchase	**585**	961
Pension benefit obligation unwound *(note 39)*	**84**	101
Due to banks and other financial institutions	**47**	52
Others	**138**	182
Less: amounts capitalised in qualifying assets	**(21)**	(23)
Total	**4,333**	4,603

(Amounts in millions of Renminbi, unless otherwise stated)

10. OTHER OPERATING AND ADMINISTRATIVE EXPENSES

	2016	2015
Employee costs	**29,513**	27,783
Taxes and surcharges	**6,872**	14,853
Depreciation and amortisation	**2,057**	2,133
Insurance guarantee fund	**2,626**	2,371
Impairment losses *(note 11)*	**408**	703
Others	**27,852**	24,612
Total	**69,328**	72,455

11. PROFIT BEFORE TAX

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

	2016	2015
Employee costs (a) *(note)*	**34,915**	32,572
Depreciation of property and equipment *(note 28) (note)*	**1,969**	2,131
Impairment losses recognised on insurance receivables *(note 21(a))*	**390**	320
Impairment losses recognised on other assets *(note 32(d))*	**18**	383
Minimum lease payments under operating leases in respect of land and buildings	**896**	904
Amortisation of intangible assets *(note 29) (note)*	**169**	147
Amortisation of prepaid land premium *(note 30) (note)*	**149**	158
Auditors' remuneration	**30**	28

(a) Employee costs

	2016	2015
Employee costs (including directors' and supervisors' remuneration)		
– Salaries, allowances and performance related bonuses	**31,842**	29,525
– Pension scheme contributions	**3,073**	3,047
Total	**34,915**	32,572

Note: Certain employee costs, depreciation and amortisation are recorded as claim handling expenses and are not included in other operating and administrative expenses.

(Amounts in millions of Renminbi, unless otherwise stated)

12. DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S REMUNERATION

Certain directors, supervisors and senior managements 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 2016 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 2016 financial statements.

Directors', supervisors' and senior management's remuneration for the years 2016 and 2015, are disclosed as follows:

(a) Independent Non-executive Directors

The fees paid to Independent Non-executive Directors during 2016 and 2015 were as follows:

	2016 (in RMB'000)	2015 (in RMB'000)
Lau Hon Chuen	**300**	300
Du Jian (i)	**–**	–
Xu Dingbo	**300**	300
Lu Jianyu (ii)	**250**	104
Lin Yixiang (ii)	**288**	63
Cai Weiguo (iii)	**–**	–
	1,138	767

There were no other emoluments payable to the Independent Non-executive Directors during the year (2015: Nil).

(i) Du Jian requested to resign in August 2014, but he was still appointed as independent non-executive director of the Company according to the regulatory requirements until March 2017.
(ii) Lu Jianyu and Lin Yixiang were appointed as independent non-executive directors in July 2015 and September 2015, respectively.
(iii) Cai Weiguo retired in July 2015 and he has not received any remuneration from the Company in 2015.

(Amounts in millions of Renminbi, unless otherwise stated)

12. DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S REMUNERATION *(continued)*

(b) Directors and Supervisors

	2016					
	Fees (in RMB '000)	Salaries and allowances (in RMB '000)	Performance related bonuses (in RMB '000)	Social insurance, housing fund and other benefits (in RMB '000)	Retiring benefits (in RMB '000)	Total (in RMB '000)
Executive Directors (Chairman of the Board):						
Wu Yan	–	277	208	62	47	594
Non-executive Directors:						
Yao Zhiqiang	–	–	–	–	–	–
Wang Qiao	–	–	–	–	–	–
Hua Rixin	–	–	–	–	–	–
Cheng Yuqin	–	–	–	–	–	–
Wang Zhibin (i)	–	–	–	–	–	–
Directors have resigned:						
Zhuang Chaoying(ii)	–	142	106	35	27	310
Li Fang (iii)	–	–	–	–	–	–
Li Yuquan(iv)	–	214	134	53	40	441
Wang Yincheng(v)	–	277	208	62	47	594
Total	–	910	656	212	161	1,939
Supervisors:						
Lin Fan	–	277	208	62	47	594
Xu Yongxian	–	806	850	249	47	1,952
Yao Bo	–	686	750	213	47	1,696
Wang Dajun (vi)	–	445	584	165	37	1,231
Supervisors have resigned:						
Li Yongmei (vii)	–	137	166	48	10	361
Yu Ning (viii)	125	–	–	–	–	125
Total	125	2,351	2,558	737	188	5,959

(i) Wang Zhibin was appointed as a non-executive director in August 2016.
(ii) Zhuang Chaoying resigned in July 2016.
(iii) Li Fang resigned in August 2016.
(iv) Li Yuquan resigned in November 2016.
(v) Wang Yincheng resigned in March 2017.
(vi) Wang Dajun was appointed as a supervisor in March 2016.
(vii) Li Yongmei resigned as a supervisor in March 2016.
(viii) Yu Ning passed away in June 2016.

(Amounts in millions of Renminbi, unless otherwise stated)

12. DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S REMUNERATION *(continued)*

(b) Directors and Supervisors *(continued)*

	2015 (Restated)					
	Fees (in RMB '000)	Salaries and allowances (in RMB '000)	Performance related bonuses (in RMB '000)	Social insurance, housing fund and other benefits (in RMB '000)	Retiring benefits (in RMB '000)	Total (in RMB '000)
Executive Directors (Chairman of the Board):						
Wu Yan	–	277	341	57	44	719
Non-executive Directors:						
Yao Zhiqiang	–	–	–	–	–	–
Wang Qiao	–	–	–	–	–	–
Hua Rixin (ix)	–	–	–	–	–	–
Cheng Yuqin (ix)	–	–	–	–	–	–
Directors have resigned:						
Li Shiling (x)	–	–	–	–	–	–
Zhang Hanlin (x)	–	–	–	–	–	–
Ma Qiang (x)	–	–	–	–	–	–
Zhuang Chaoying	–	249	307	57	44	657
Li Fang (xi)	–	–	–	–	–	–
Li Yuquan (xii)	–	45	56	10	8	119
Wang Yincheng	–	277	341	57	44	719
Total	–	848	1,045	181	140	2,214
Supervisors:						
Lin Fan	–	277	341	57	44	719
Xu Yongxian	–	799	850	168	44	1,861
Yao Bo	–	686	750	214	44	1,694
Supervisors have resigned:						
Li Yongmei	–	579	800	214	44	1,637
Yu Ning	300	–	–	–	–	300
Total	300	2,341	2,741	653	176	6,211

(ix) Hua Rixin and Cheng Yuqin were appointed as non-executive directors in October 2015.
(x) Li Shiling, Zhang Hanlin and Ma Qiang resigned in October 2015.
(xi) Li Fang was appointed as a non-executive director in October 2015.
(xii) Li Yuquan was appointed as an executive director in October 2015.

The compensation amounts for the directors and supervisors during their appointment were stated above. The total compensation for the year ended 31 December 2015 was restated by final circumstances in year 2016.

Executive directors' emoluments shown above were mainly for the services in connection with management of affairs of the Company and the Group. Non-executive directors did not receive any remuneration from the Company.

(Amounts in millions of Renminbi, unless otherwise stated)

12. DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S REMUNERATION *(continued)*

(c) Senior Management

The information set out below does not include remunerations of directors or supervisors, nor remunerations of Zhuang Chaoying and Li Yuquan when they were in the offices as directors. The relevant information of their remunerations when they were directors is disclosed in note 12(b).

	2016 (in RMB '000)	2015 (in RMB '000) (Restated)
Salaries and allowances	**4,824**	4,517
Performance related bonuses	**5,236**	5,889
Social insurance, housing fund and other benefits	**1,362**	951
Retiring benefits	**404**	375
	11,826	11,732

The number of senior management, excluding directors and supervisors, whose remuneration fell within the following bands are as follows:

	2016	2015 (Restated)
RMB0 to RMB500,000	**2**	1
RMB500,001 to RMB1,000,000	**4**	4
RMB1,000,001 to RMB1,500,000	**–**	–
RMB1,500,001 to RMB2,000,000	**–**	–
RMB2,000,001 to RMB2,500,000	**4**	4
	10	9

13. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals do not include directors and supervisors during the years 2016 and 2015. Details of the five highest paid individuals are set out below:

	2016 (in RMB'000)	2015 (in RMB'000) (Restated)
Salaries, allowances	**4,499**	4,207
Performance related bonuses	**5,242**	5,422
Social insurance, housing fund and other benefits	**1,326**	930
Retiring benefits	**236**	221
Total	**11,303**	10,780

(Amounts in millions of Renminbi, unless otherwise stated)

13. FIVE HIGHEST PAID INDIVIDUALS *(continued)*

The above five highest paid individuals whose remuneration fell within the following bands are as follows:

	2016	2015 (Restated)
HKD1,000,001 to HKD1,500,000	–	–
HKD1,500,001 to HKD2,000,000	–	–
HKD2,000,001 to HKD2,500,000	1	1
HKD2,500,001 to HKD3,000,000	4	4
	5	5

14. INCOME TAX EXPENSE

	2016	2015
Current income tax		
– Charge for the year	7,525	8,771
– Adjustments in respect of current tax of previous periods	39	15
Deferred income tax *(note 31)*	(2,926)	(2,481)
Total	4,638	6,305

In accordance with the relevant PRC income tax rules and regulations, the Company and Company's subsidiaries registered in the PRC are subject to corporate income tax ("CIT") at the statutory rate of 25% (2015: 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.

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 2016 (2015: 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:

	2016	2015
Profit before tax	25,319	33,970
Tax at the statutory tax rate	6,330	8,492
Adjustments in respect of current tax of previous periods	39	15
Tax effect of share of profits and losses of associates	(2,597)	(1,623)
Income not subject to tax	(1,102)	(1,019)
Expenses not deductible for tax	941	208
Unrecognised deductible temporary differences and tax losses	1,030	233
Effects of different tax rates applied to subsidiaries	(3)	(1)
Tax charge for the year	4,638	6,305
Effective tax rate	18.3%	18.6%

(Amounts in millions of Renminbi, unless otherwise stated)

15. EARNINGS PER SHARE

The calculation of basic earnings per share for the years 2016 and 2015 is based on the profit attributable to equity holders of the parent and the number of ordinary shares in issue during the year.

	2016	2015
Profit attributable to equity holders of the parent for the year	14,245	19,542
Number of ordinary shares (in million shares)	42,424	42,424
Basic earnings per share (in RMB)	0.34	0.46

No diluted earnings per share has been presented for the years 2016 and 2015 as the Group had no potential ordinary shares in issue during the periods.

16. DIVIDENDS

	2016	2015
Dividends recognised as distributions during the year: 2015 Final, paid – RMB2.26005 cent per share (2015: 2014 Final, paid-RMB0.94671 cent per share)	959	402

As at 24 March 2017, final dividend in respect of the year ended 31 December 2016 of RMB3.37881 cent per share has been proposed by the Board of Directors and is subject to approval by the shareholders at the forthcoming general meeting.

17. CASH AND CASH EQUIVALENTS

	31 December 2016	31 December 2015
Cash on hand	1	1
Money at call and short notice	36,060	30,967
Deposits with banks with original maturity of less than three months	3,743	3,055
Securities purchased under resale agreements with original maturity of less than three months	6,925	15,861
Total	46,729	49,884

For securities purchased under resale agreements, counterparties are required to pledge certain bonds as collaterals.

(Amounts in millions of Renminbi, unless otherwise stated)

18. DERIVATIVE FINANCIAL INSTRUMENTS

	31 December 2016		
	Notional amount	**Derivative financial assets**	**Derivative financial liabilities**
Interest rate swaps			
– Hedging instruments	**200**	**3**	**–**
Total	**200**	**3**	**–**

	31 December 2015		
	Notional amount	Derivative financial assets	Derivative financial liabilities
Interest rate swaps			
– Hedging instruments	1,050	8	–
Total	1,050	8	–

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.

19. DEBT SECURITIES

	31 December 2016	31 December 2015
Classification of debt securities		
Held for trading, at fair value	**4,109**	768
Available-for-sale, at fair value	**114,591**	106,348
Held-to-maturity, at amortised cost	**121,831**	125,031
Total debt securities	**240,531**	232,147

(Amounts in millions of Renminbi, unless otherwise stated)

20. EQUITY SECURITIES, MUTUAL FUNDS AND TRUST SCHEMES

	31 December 2016	31 December 2015
Investments, at fair value		
Mutual funds	**94,028**	77,755
Shares	**29,271**	22,867
Preference shares	**9,567**	9,041
Equity schemes	**10,311**	4,748
Subtotal	**143,177**	114,411
Investments, at cost less impairment		
Shares	**107**	503
Total equity securities and mutual funds	**143,284**	114,914
Trust schemes, at fair value	**7,266**	10,361

Equity schemes are structured entities which are created for investing in one or more equity investments. The underlying equity investments of these equity schemes are usually determined at inception of these schemes and any changes to, or additional investments in, the underlying equity investments of any particular scheme requires support from two-thirds of the beneficiary interests in that scheme. Some of these schemes are launched and managed by the Group.

The Group did not guarantee or provide any financial support for these Equity Schemes, and considers that the carrying amount of these Equity Schemes represents the Group's maximum risk exposure.

As at 31 December 2016, the Group is the sole funding provider of a trust investment of carrying value of RMB7,266 million (31 December 2015: RMB10,361 million). The Group concludes it does not control this trust as investment decisions are made by a trust manager, which can only be removed in limited situations.

The trust invests in predominantly debt instruments and it offers the Group an expected return of not more than 6.3% (31 December 2015: 7.5%). Its actual returns and eventual repayment of initial investments, however, depend on the performance underlying investments, which are predominantly debts in nature. The life of this trust arrangement is 5 years but can be extended for another 2 years upon mutual consent. The Group's maximum loss is limited to its investments and has no contractual obligations or intention to provide any financial support to the trust.

	31 December 2016	31 December 2015
Classification of equity securities and mutual funds		
Held for trading, at fair value	**31,062**	28,734
Available-for-sale, at fair value	**112,115**	85,677
Available-for-sale, at cost less impairment	**107**	503
Total equity securities and mutual funds	**143,284**	114,914
Classification of trust schemes		
Available-for-sale, at fair value	**7,266**	10,361
Total equity securities, mutual funds and trust schemes	**150,550**	125,275

(Amounts in millions of Renminbi, unless otherwise stated)

21. INSURANCE RECEIVABLES, NET

	31 December 2016	31 December 2015
Insurance receivables	**37,557**	24,427
Less: Impairment provision on insurance receivables	**(3,218)**	(2,869)
Total	**34,339**	21,558

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

	2016	2015
At 1 January	**2,869**	2,689
Impairment losses recognised *(note 11)*	**390**	320
Amount written off as uncollectible	**(41)**	(140)
At 31 December	**3,218**	2,869

(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 2016	31 December 2015
Not yet due and within 3 months	**27,749**	18,769
3 to 6 months	**4,234**	1,136
6 to 12 months	**1,943**	1,321
1 to 2 years	**300**	241
Over 2 years	**113**	91
Total	**34,339**	21,558

22. REINSURERS' SHARE OF INSURANCE CONTRACT PROVISIONS

	31 December 2016	31 December 2015
Reinsurers' share of		
Unearned premium reserves	**10,171**	9,276
Claim reserves	**20,709**	17,177
Long-term life insurance reserves	**139**	89
Total	**31,019**	26,542

(Amounts in millions of Renminbi, unless otherwise stated)

23. TERM DEPOSITS

The original maturities of the term deposits are as follows:

	31 December 2016	31 December 2015
More than 3 months to 1 year	**342**	1,375
1 to 2 years	**108**	8
2 to 3 years	**217**	1,385
More than 3 years	**91,217**	145,329
Total	**91,884**	148,097

These term deposits of the Group bear fixed or variable interests and range from 0.10%-7.50% and 3.16%-6.60% per annum as at 31 December 2016, respectively (31 December 2015: range from 0.75%-7.50% and 3.30%-4.95% per annum).

24. INVESTMENTS CLASSIFIED AS LOANS AND RECEIVABLES

	31 December 2016	31 December 2015
Long-term debt investment schemes	**109,014**	99,655
Wealth management products	**42,002**	1,073
Asset management products	**15,062**	7,057
Reinsurance arrangement classified as investment contract	**2,000**	2,000
Subordinated debts held	**700**	700
Total	**168,778**	110,485

Long-term debt investment schemes ("Debt Schemes") are structured entities and offer either fixed or variable interests to their investors, the Group has invested in a number of Debt Schemes over time. These Debt Schemes were created to raise funds from investors for lending onto various borrowers. The Group's investments in Debt Schemes are entirely lending transactions in nature and the Group's proportion of funds lent to these Debt Schemes ranges from 2% to 100% of the total funds raised. The interest rates of these Debt Schemes are 3.92%-8.00% (31 December 2015: 4.22%-8.20%) per annum as at 31 December 2016.

All loans originated by the Debt Schemes with the funds received from their investors are guaranteed by third parties and these guarantees are always joint, irrevocable and unconditional. Guarantors of Debt Schemes are banks of high credit rating or state-owned enterprises. The Group does not control any of these Debt Schemes. The Group's voting rights as lenders to these Debt Schemes are protective of the Group's interests in the Debt Schemes and mainly comprise of early termination or extension of the Debt Schemes' term and, when certain conditions exist, change of the Debt Schemes' managers. Support from two-thirds of the beneficiary interests are required to pass resolutions to make these changes.

As at 31 December 2016, except for a Debt Scheme under which the Group commits a debt investment of RMB193 million (31 December 2015: RMB1,660 million), the Group did not guarantee or provide any financing support for these Debt Schemes, and considers that the carrying amount of the loans to these Debt Schemes represents the Group's maximum risk exposure.

Wealth management products are financial products offered by banks which offer fixed or determinable payments and are not quoted in active market. The original terms of these products held at year end date are within 1 year and the interest rates are 3.50% to 4.90% (31 December 2015: 4.20%) per annum as at 31 December 2016.

(Amounts in millions of Renminbi, unless otherwise stated)

24. INVESTMENTS CLASSIFIED AS LOANS AND RECEIVABLES *(continued)*

Asset management products are various financial products which offer fixed or determinable payments and are not quoted in active market. These financial products include securitised assets, asset management products offered by securities companies. The interest rates of these products are 3.30%-6.60% (31 December 2015: 4.20%-7.80%) per annum as at 31 December 2016.

Included in the balance of reinsurance arrangement classified as an investment contract was an amount paid under a reinsurance arrangement which did not transfer significant insurance risk. This arrangement offered a fixed interest rate of 6.35% (31 December 2015: 6.35%) per annum. Both the Group and the reinsurer have a right to terminate the arrangement at the end of or subsequent to the fifth anniversary of the effective date of the reinsurance contract.

The original terms of subordinated debts are 10 years with a redemption right exercisable by the issuer as at the end of fifth year after its issue. The interest rates of these debts are 5.50%-5.60% (31 December 2015: 5.50%-5.60%) per annum as at 31 December 2016.

25. SUBSIDIARIES

(a) General information of subsidiaries

The particulars of the principal subsidiaries as of 31 December 2016 and 2015 are set out below:

Name	Place of incorporation/ registration	Nominal value of registered share capital	Proportion of shareholders' interest and voting rights				Principal activities/ place of operation
			31 December 2016		31 December 2015		
			Direct	Indirect	Direct	Indirect	
PICC Property and Casualty Company Limited PICC P&C ("PICC P&C")	Beijing	RMB 14,828,510,202	68.98%	–	68.98%	–	Non-life insurance, China
PICC Asset Management Company Limited ("PICC AMC")	Shanghai	RMB 800,000,000	100.00%	–	100.00%	–	Management of insurance investments, China
PICC Capital Investment Management Company Limited	Beijing	RMB 200,000,000	100.00%	–	100.00%	–	Investment management, China
PICC Health Insurance Company Limited ("PICC Health")	Beijing	RMB 8,568,414,737	69.32%	26.13%	92.10%	1.85%	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	N/A	75.00%	–	75.00%	–	P&C insurance, Hong Kong
Zhongsheng International Insurance Brokers Company Limited	Beijing	RMB 170,727,800	92.71%	–	92.71%	–	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%	–	100.00%	–	Estate services and property management, China

(Amounts in millions of Renminbi, unless otherwise stated)

25. SUBSIDIARIES *(continued)*

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

Name	Place of incorporation/ registration	Nominal value of registered share capital	Proportion of shareholders' interest and voting rights 31 December 2016 Direct	Indirect	31 December 2015 Direct	Indirect	Principal activities/ place of operation
PICC Asset Management (Hong Kong) Company Limited	Hong Kong	N/A	100.00%	–	100.00%	–	Management of insurance investments, Hong Kong
PICC Financial Services Company Limited ("PICC Financial Services")	Tianjin	RMB 1,000,000,000	100.00%	–	–	–	Internet finance, China

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.

As at 31 December 2016, 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 P&C, which is listed on the Main Board of the Hong Kong Stock Exchange. As at 31 December 2016, market value of shares of PICC P&C is RMB110,531 million (31 December 2015: RMB132,144 million).

Borrowings and subordinated debts and capital supplementary bonds issued by these subsidiaries are set out in notes 35 and 36 to these consolidated financial statements.

The Company and the following subsidiaries had issued subordinated debts and capital supplementary bonds at the end of the year:

	31 December 2016 Held by third parties		31 December 2015 Held by third parties	
	Nominal Amount	Carrying Amount	Nominal Amount	Carrying Amount
The Company	16,000	15,984	16,000	15,973
PICC P&C	23,000	23,112	16,000	16,297
PICC Life	6,000	6,162	6,000	6,105
PICC Health	800	826	800	835
	45,800	46,084	38,800	39,210

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 2016	31 December 2015
Insurance intermediaries	Beijing, Shanghai, Shenzhen and others	5	5
Insurance training services	Hainan	1	1
Property development and management	Beijing, Shanghai and others	8	8
Hotels, restaurants and others	Beijing, Zhejiang and others	3	3
		17	17

(Amounts in millions of Renminbi, unless otherwise stated)

25. SUBSIDIARIES *(continued)*

(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		Profit allocated to non-controlling interests		Accumulated non-controlling interests	
		31 December 2016	31 December 2015	31 December 2016	31 December 2015	31 December 2016	31 December 2015
PICC P&C and its subsidiaries	Beijing	**31.02%**	31.02%	**5,590**	6,777	**37,015**	33,800
PICC Life and its subsidiaries	Beijing	**20.00%**	20.00%	**90**	711	**6,574**	7,019

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.

In particular, an interest in an equity instrument, Industrial Bank, 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, this interest is accounted for as an associate in the Group's consolidated financial statements. The information presented in this note 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 2016	31 December 2015
Total assets	**475,949**	420,420
Total liabilities	**356,637**	311,469
Total shareholders' equity	**119,312**	108,951

(Amounts in millions of Renminbi, unless otherwise stated)

25. SUBSIDIARIES *(continued)*

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

PICC P&C *(continued)*

	2016	2015
Total income	288,356	276,769
Total benefits, claims and expenses	(268,850)	(249,039)
Share of profits and losses of associates	2,945	473
Income tax expense	(4,430)	(6,356)
Profit for the year	18,021	21,847
Other comprehensive (expense)/income for the year	(3,152)	5,333
Total comprehensive income for the year	14,869	27,180
Dividends paid to non-controlling interests	1,398	1,242
Net cash inflow from operating activities	22,077	27,232
Net cash outflow from investing activities	(18,206)	(26,507)
Net cash outflow from financing activities	(1,555)	(2,054)
Net cash inflow/(outflow)	2,316	(1,329)

PICC Life

	31 December 2016	31 December 2015
Total assets	375,499	357,560
Total liabilities	342,629	322,467
Total shareholders' equity	32,870	35,093

(Amounts in millions of Renminbi, unless otherwise stated)

25. SUBSIDIARIES *(continued)*

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

PICC Life ***(continued)***

	2016	2015
Total income	121,736	111,310
Total benefits, claims and expenses	(124,637)	(110,551)
Share of profit of an associate	3,348	2,701
Income tax expense	5	96
Profit for the year	452	3,556
Other comprehensive (expense)/income for the year	(1,827)	1,732
Total comprehensive (expense)/income for the year	(1,375)	5,288
Dividends paid to non-controlling interests	172	96
Net cash outflow from operating activities	(4,972)	(4,363)
Net cash (outflow)/inflow from investing activities	(7,731)	30,563
Net cash inflow/(outflow) from financing activities	5,992	(18,427)
Net cash (outflow)/inflow	(6,711)	7,773

(c) Changes in ownership interests in subsidiaries

During the year, PICC P&C subscribed for 2,119 million new shares issued by PICC Health at a consideration of RMB2,500 million. As the Company and other shareholders of PICC Health did not subscribe for any new shares, the Group's aggregate ownership interests in PICC Health increased from 93.95% to 95.45% after the completion of this transaction. An amount of RMB63 million, which represents the difference between the consideration paid by the group and additional interests in equity components of PICC Health acquired, was debited to other reserves as a consequence of the transaction.

(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 the Company and its subsidiaries to access assets held by these subsidiaries to settle liabilities of the Group is restricted. The carrying amounts of assets held by these insurance entities are disclosed in note 4 to these financial statements as segment assets of non-life insurance, life insurance and health insurance sectors.

(Amounts in millions of Renminbi, unless otherwise stated)

26. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

(a) The Group's investments in the associates and joint ventures as at 31 December 2016 and 2015 are as follows:

	31 December 2016	31 December 2015
Associates		
Cost of investment in associates	**63,961**	37,402
Share of post-acquisition profits and other comprehensive income	**18,983**	13,016
Subtotal	**82,944**	50,418
Joint ventures		
Cost of investment in joint ventures	**2,890**	2,890
Total	**85,834**	53,308

(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 2016** **Direct**	**Indirect**	31 December 2015 Direct	Indirect
Industrial Bank [(1)]	Fujian	Banking, China	**0.91%**	**13.15%**	0.91%	13.15%
China Credit Trust Company Limited ("China Credit Trust")[(2)]	Beijing	Trust business, China	**32.92%**	**–**	32.92%	–
Hua Xia Bank [(3)]	Beijing	Banking, China	**–**	**19.99%**	–	–

The Group accounts for its interests in Industrial Bank as associate as it has representative in boards of directors in this entity.

(1) Industrial Bank

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 ex-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.

26. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES *(continued)*

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

(1) Industrial Bank *(continued)*

On 9 July 2015, PICC P&C and PICC Life, the Company's subsidiaries, acquired 280 million and 328 million shares, respectively, of Industrial Bank in the open market at considerations of RMB4,641 million and RMB5,454 million respectively. Therefore, the Group's aggregate interest in this associate was increased from 10.87% to 14.06%. Goodwill of RMB485 million arose from this acquisition.

On 27 April 2016, Mr Li Liangwen, the ex-President of PICC Life, resigned from the board of directors of Industrial Bank. On 28 April 2016, the board of directors of Industrial Bank nominated Mr Fu An Ping, the President of PICC Life, as the new board member, this nomination was approved subsequently at the annual general meeting of stockholders on 24 May 2016.

(2) China Credit Trust

During the year, PICC Life agreed to purchase an equity interest of 10.1764% in China Credit Trust, an associate of the Group. The transaction was still subject to regulatory approval as at 31 December 2016 and, therefore, the consideration of RMB1,899 million paid in advance was recorded as "Other asset".

(3) Hua Xia Bank

On 28 December 2015, PICC P&C entered into a share transfer agreement with Deutsche Bank Aktiengesellschaft ("Deutsche Bank"), Sal. Oppenheim jr. & Cie. AG & Co. Kommanditgesellschaft auf Aktien ("Sal. Oppenheim") and Deutsche Bank Luxembourg S.A. ("Deutsche Bank Luxembourg"), pursuant to which each of Deutsche Bank, Sal. Oppenheim and Deutsche Bank Luxembourg conditionally agreed to transfer to the major subsidiary of the Company 877 million shares, 267 million shares and 992 million shares of Hua Xia Bank, respectively, held by them (amounting to a total of 2,136,045,885 shares, representing approximately 19.99% of the total issued shares of Hua Xia Bank) and PICC P&C conditionally agreed to purchase these shares. This transaction was completed on 17 November 2016.

The Group holds the view that it has the ability to have significant influence over Hua Xia Bank since 17 November 2016 and therefore accounts for its interests in Hua Xia Bank as an associate. An excess of RMB2,636 million, which represents the Group's share of the net fair value of the identifiable assets and liabilities of Hua Xia Bank over the cost of the investment, is included as income in the Group's share of the profit or loss for the current year.

Hua Xia Bank is a listed company in the PRC and its annual results are only publicly available after the results announcement of the Group. Moreover, the Group is of the opinion that its share of the profit and other comprehensive income of Hua Xia Bank for the period from 17 November 2016 to 31 December 2016 is not material to the operating results for the current year and financial position as at 31 December 2016. Therefore, the Group has not applied equity accounting for its share of profit or comprehensive income since Hua Xia Bank became its associate.

The Group's interests in Hua Xia are held for strategic purposes.

The above table lists 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. As at 31 December 2016, apart from the three associates disclosed above, the Group has in aggregate 11 (31 December 2015: 11) immaterial associates and joint ventures and their aggregate information was presented in note 26(c).

(Amounts in millions of Renminbi, unless otherwise stated)

26. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES *(continued)*

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

(3) Hua Xia Bank *(continued)*

Summarised consolidated financial information in respect of each of the Group's material associates is set out below. The summarised consolidated financial information below represents amounts shown in the associate's consolidated 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, Hua Xia Bank and China Credit Trust are financial institutions. Therefore, their abilities to distribute dividends are subject to fulfillment of the relevant regulatory capital requirements.

Industrial Bank

	30 September 2016	30 September 2015
Total assets	**5,816,904**	5,289,398
Total liabilities	**5,468,893**	4,983,559
Attributable to		
Equity holders of Industrial Bank	**343,981**	302,424
Non-controlling interests	**4,030**	3,415
Total equity	**348,011**	305,839

	Period from 1 October 2015 to 30 September 2016	Period from 1 October 2014 to 30 September 2015
Revenue	**160,652**	146,402
Profit attributable to		
Equity holders of Industrial Bank	**52,968**	50,055
Non-controlling interests	**421**	419
Profit for the period	**53,389**	50,474
Other comprehensive income attributable to		
Equity holders of Industrial Bank	**1,358**	3,385
Non-controlling interests	**(3)**	(12)
Other comprehensive income for the period	**1,355**	3,373
Total comprehensive income attributable to		
Equity holders of Industrial Bank	**54,326**	53,440
Non-controlling interests	**418**	407
Total comprehensive income for the period	**54,744**	53,847
Dividends received from the associate during the period	**1,634**	1,180

(Amounts in millions of Renminbi, unless otherwise stated)

26. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES *(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 2016	30 September 2015
Net assets of Industrial Bank attributable to equity holders of Industrial Bank	**343,981**	302,424
Total preference shares issued by Industrial Bank	**(25,905)**	(25,905)
Net assets attributable to ordinary share holders of Industrial Bank	**318,076**	276,519
Proportion of the Group's shareholders' interest in Industrial Bank	**14.06%**	14.06%
The Group's shareholders' interest in net assets of Industrial Bank	**44,721**	38,879
Goodwill	**485**	485
Net fair value adjustment to the investee's identifiable assets and liabilities	**2,604**	2,604
Amortisation of intangible assets and financial instruments recognised in fair value adjustments	**(360)**	(117)
Carrying amount of the Group's interest in Industrial Bank	**47,450**	41,851
Fair value of shares listed in Mainland China	**43,240**	45,006

Industrial Bank is a listed company and its annual results are usually public available after the results announcement of the Group. Therefore, as permitted by IAS 28 "Investments in Associates", the Group account for its share of the profit of Industrial Bank from 1 October 2015 to 30 September 2016 (31 December 2015: 1 October 2014 to 30 September 2015).

(Amounts in millions of Renminbi, unless otherwise stated)

26. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES *(continued)*

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

Hua Xia Bank

Reconciliation of the carrying amount of the interest in Hua Xia Bank recognised in the consolidated financial statements:

	17 November 2016 Provisional values RMB million
Net assets attributable to equity holders of Hua Xia Bank	130,910
Proportion of the Group's shareholders' interest in Hua Xia Bank	19.99%
The Group's shareholders' interest in net assets of Hua Xia Bank	26,169
Net fair value adjustment to the investee's identifiable assets and liabilities	(78)
Carrying amount of the Group's interest in Hua Xia Bank	26,091
Fair value of shares listed in Mainland China	23,176

China Credit Trust

	31 December 2016	31 December 2015
Total assets	**19,445**	18,426
Total liabilities	**3,917**	4,291
Attributable to		
Equity holders of China Credit Trust	**15,489**	14,111
Non-controlling interests	**39**	24
Total shareholders' equity	**15,528**	14,135

(Amounts in millions of Renminbi, unless otherwise stated)

26. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES *(continued)*

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

China Credit Trust *(continued)*

	2016	2015
Revenue	2,087	2,868
Profit attributable to		
Equity holders of China Credit Trust	1,307	1,566
Non-controlling interests	21	7
Profit for the year	1,328	1,573
Other comprehensive income attributable to		
Equity holders of China Credit Trust	70	–
Non-controlling interests	–	–
Other comprehensive income for the year	70	–
Total comprehensive income attributable to		
Equity holders of China Credit Trust	1,377	1,566
Non-controlling interests	21	7
Total comprehensive income for the year	1,398	1,573
Dividends received from the associate during the year	–	129

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 2016	31 December 2015
Net assets of China Credit Trust attributable to equity holders of China Credit trust	15,489	14,111
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	5,099	4,645

(Amounts in millions of Renminbi, unless otherwise stated)

26. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES *(continued)*

(c) Aggregate information of associates and joint ventures that are not individually material:

	2016	2015
The Group's share of profit	276	158
The Group's share of other comprehensive (expense)/income	(195)	150
The Group's share of total comprehensive income	81	308
Aggregate carrying amount of the Group's interests in these associates and joint ventures	7,194	6,812

On 31 December 2016, except for Industrial Bank and Hua Xia Bank which were listed on the Main Board of The Shanghai Stock Exchange, Mainland China, all other associates that the Group holds interests in are unlisted companies.

27. INVESTMENT PROPERTIES

	31 December 2016	31 December 2015
Beginning of year	10,358	10,682
Additions	27	15
Transfers from property and equipment *(note 28)*	188	170
Transfer from prepaid land premium *(note 30)*	39	7
Gains on revaluation of properties upon transfer from property and equipment	238	414
Gains on revaluation of properties upon transfer from prepaid land premiums	94	14
Increase/(Decrease) in fair value of investment properties *(note 6(c))*	224	(510)
Transfer to property and equipment *(note 28)*	(451)	(424)
Disposals	(22)	(10)
End of year	10,695	10,358

The Group was still in the process of applying for title certificates for investment properties with a carrying value of RMB2,781 million as at 31 December 2016 (31 December 2015: RMB3,122 million).

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. The investment properties held by PICC Investment Holding was revalued by Beijing Guorongxinghua Assets Appraisal 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.

(Amounts in millions of Renminbi, unless otherwise stated)

27. INVESTMENT PROPERTIES *(continued)*

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 ranges from 4.0% to 8.0% as at 31 December 2016 (31 December 2015: 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.

28. PROPERTY AND EQUIPMENT

	Buildings	Office equipment, furniture and fixtures	Motor vehicles	Construction in progress	Total
COST					
As at 1 January 2016	25,273	7,395	1,783	2,432	36,883
Additions	527	767	390	1,103	2,787
Transfer of construction in progress	993	4	–	(997)	–
Transfer from investment property *(note 27)*	451	–	–	–	451
Transfer to investment property *(note 27)*	(231)	–	–	(49)	(280)
Disposals	(47)	(336)	(190)	(8)	(581)
As at 31 December 2016	26,966	7,830	1,983	2,481	39,260
ACCUMULATED DEPRECIATION					
As at 1 January 2016	6,056	5,708	1,177	–	12,941
Depreciation *(note 11)*	820	910	239	–	1,969
Transfer to investment properties *(note 27)*	(92)	–	–	–	(92)
Disposals	(24)	(324)	(170)	–	(518)
As at 31 December 2016	6,760	6,294	1,246	–	14,300
IMPAIRMENT LOSSES					
As at 1 January 2016 and 31 December 2016	830	2	–	15	847
NET CARRYING VALUES					
As at 31 December 2016	19,376	1,534	737	2,466	24,113
As at 1 January 2016	18,387	1,685	606	2,417	23,095

(Amounts in millions of Renminbi, unless otherwise stated)

28. PROPERTY AND EQUIPMENT *(continued)*

	Buildings	Office equipment, furniture and fixtures	Motor vehicles	Construction in progress	Total
COST					
As at 1 January 2015	23,129	7,082	1,960	1,714	33,885
Additions	1,616	605	53	1,245	3,519
Transfer of construction in progress	425	7	–	(432)	–
Transfer from investment property *(note 27)*	424	–	–	–	424
Transfer to investment property *(note 27)*	(240)	–	–	–	(240)
Disposals	(81)	(299)	(230)	(95)	(705)
As at 31 December 2015	25,273	7,395	1,783	2,432	36,883
ACCUMULATED DEPRECIATION					
As at 1 January 2015	5,420	4,882	1,124	–	11,426
Depreciation *(note 11)*	750	1,111	270	–	2,131
Transfer to investment properties *(note 27)*	(70)	–	–	–	(70)
Disposals	(44)	(285)	(217)	–	(546)
As at 31 December 2015	6,056	5,708	1,177	–	12,941
IMPAIRMENT LOSSES					
As at 1 January 2015	831	2	–	36	869
Disposals	(1)	–	–	(21)	(22)
As at 31 December 2015	830	2	–	15	847
NET CARRYING VALUES					
As at 31 December 2015	18,387	1,685	606	2,417	23,095
As at 1 January 2015	16,878	2,198	836	1,678	21,590

(Amounts in millions of Renminbi, unless otherwise stated)

29. INTANGIBLE ASSETS

	Software 31 December 2016	31 December 2015
COST		
Beginning of the year	**1,616**	1,282
Additions	**379**	410
Disposals	**(27)**	(76)
End of the year	**1,968**	1,616
ACCUMULATED AMORTISATION		
Beginning of the year	**611**	474
Amortisation *(note11)*	**169**	147
Disposals	**(9)**	(10)
End of the year	**771**	611
NET CARRYING VALUES		
End of the year	**1,197**	1,005
Beginning of the year	**1,005**	808

30. PREPAID LAND PREMIUMS

	Prepaid land premiums 31 December 2016	31 December 2015
COST		
Beginning of the year	**5,263**	5,093
Additions	**110**	259
Transfer to investment properties *(note 27)*	**(61)**	(10)
Disposals	**(51)**	(79)
End of the year	**5,261**	5,263
ACCUMULATED AMORTISATION		
Beginning of the year	**1,278**	1,147
Amortisation *(note 11)*	**149**	158
Transfer to investment properties *(note 27)*	**(22)**	(3)
Disposals	**(13)**	(24)
End of the year	**1,392**	1,278
IMPAIRMENT LOSSES		
At beginning and the end of the year	**44**	44
NET CARRYING VALUES		
End of the year	**3,825**	3,941
Beginning of the year	**3,941**	3,902

(Amounts in millions of Renminbi, unless otherwise stated)

31. DEFERRED TAX ASSETS AND LIABILITIES

	31 December 2016	31 December 2015
Deferred tax assets	**5,965**	2,251
Deferred tax liabilities	**(752)**	(1,455)
Total	**5,213**	796

The movements of deferred tax assets and liabilities of the Group during 2016 and 2015 are as follows:

	2016			
	As at 1 January	**(Charged)/ credited to the income statement during the year**	**Credited/ (charged) to equity during the year**	**As at 31 December**
Provision for impairment losses	**977**	**365**	**–**	**1,342**
Employee benefits payable	**1,567**	**(235)**	**–**	**1,332**
Adjustments related to available-for-sale financial assets	**(2,572)**	**–**	**1,573**	**(999)**
Fair value adjustments to financial assets carried at fair value through profit or loss	**(132)**	**104**	**–**	**(28)**
Cash flow hedging	**(3)**	**–**	**1**	**(2)**
Fair value adjustments arising from investment properties	**(1,575)**	**(56)**	**(83)**	**(1,714)**
Insurance contract liabilities	**2,467**	**2,596**	**–**	**5,063**
Others	**67**	**152**	**–**	**219**
Net value	**796**	**2,926**	**1,491**	**5,213**

	2015			
	As at 1 January	(Charged)/ credited to the income statement during the year	Credited/ (charged) to equity during the year	As at 31 December
Provision for impairment losses	812	165	–	977
Employee benefits payable	1,594	(27)	–	1,567
Adjustments related to available-for-sale financial assets	(820)	–	(1,752)	(2,572)
Fair value adjustments to financial assets carried at fair value through profit or loss	(81)	(51)	–	(132)
Cash flow hedging	(6)	–	3	(3)
Fair value adjustments arising from investment properties	(1,596)	128	(107)	(1,575)
Insurance contract liabilities	228	2,239	–	2,467
Others	40	27	–	67
Net value	171	2,481	(1,856)	796

(Amounts in millions of Renminbi, unless otherwise stated)

31. 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 RMB14,953 million as at 31 December 2016 (31 December 2015: RMB11,874 million), of which deductible tax losses amounted to RMB12,958 million as at 31 December 2016 (31 December 2015: RMB9,971 million).

The expiry dates of unused tax losses are as follows:

	31 December 2016	31 December 2015
31 December 2017	**36**	408
31 December 2018	**2,309**	5,344
31 December 2019	**4,454**	3,571
31 December 2020	**2,965**	648
31 December 2021	**3,194**	–
Total	**12,958**	9,971

32. OTHER ASSETS

Carrying values of other assets are as follows:

	Note	**31 December 2016**	31 December 2015
Interest receivables		**10,037**	11,202
Other receivables	(a)	**5,887**	5,008
Policy loans	(b)	**2,823**	3,345
Amount due from MOF	(c)	**344**	344
Dividends receivables		**89**	90
Others		**9,233**	7,247
Total		**28,413**	27,236
Less: Impairment provision on other assets	(d)	**(1,637)**	(1,636)
Net value		**26,776**	25,600

(a) Other receivables

	31 December 2016	31 December 2015
Prepayments and deposits *(note)*	**3,119**	583
Securities settlement account	**2,350**	3,817
Other receivables	**418**	608
Total	**5,887**	5,008
Less: Impairment provision	**(391)**	(394)
Net value	**5,496**	4,614

Note: As disclosed in note 26(b)(2), PICC Life agreed to purchase an equity interest of 10.1764% in China Credit Trust, an associate of the Group. The transaction was still subject to regulatory approval as at 31 December 2016 and, therefore, the consideration of RMB1,899 million paid in advance was recorded as prepayments and deposits.

(Amounts in millions of Renminbi, unless otherwise stated)

32. OTHER ASSETS *(continued)*

(b) Policy loans are secured by cash values of the relevant insurance policies and carry interest rate at 5.22%-6.35% (31 December 2015: 5.22%-6.45%) per annum as at 31 December 2016.

(c) The balance included an amount of RMB344 million as at 31 December 2016 (31 December 2015: RMB344 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 42(d)(3).

(d) The movements of provision for impairment of other assets are as follow:

	31 December 2016	31 December 2015
At 1 January	1,636	1,269
Impairment losses recognised *(note11)*	18	383
Amount written off as uncollectible	(17)	(16)
At 31 December	1,637	1,636

33. PLEDGED ASSETS AND RESTRICTED DEPOSITS

(a) Deposits with restricted rights or ownership

As at 31 December 2016, term deposits amounting to RMB1,347 million (31 December 2015: RMB1,442 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) Securities pledged for repurchase transactions

As described in note 34 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.

	31 December 2016	31 December 2015
Carrying amount of transferred assets	47,430	43,635
Carrying amount of associated liabilities		
– Securities sold under agreements to repurchase	33,066	28,231
Net	14,364	15,404

(Amounts in millions of Renminbi, unless otherwise stated)

34. SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

	31 December 2016	31 December 2015
Transactions by market places:		
Stock exchange	**19,482**	20,449
Inter-bank market	**13,584**	7,782
Total	**33,066**	28,231

Debt securities are pledged for these transactions and details are set out in note 33(b) to these consolidated financial statements.

35. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2016	31 December 2015
Long-term borrowings		
– Carrying amount repayable more than five years	**–**	980

Maturity profile of borrowings is disclosed in note 44(b)(2).

36. BONDS PAYABLE

As at 31 December 2016, bonds payable comprised of subordinated debts and capital supplementary bonds.

	31 December 2016	31 December 2015
Subordinated debts:		
Carrying amount repayable:		
– Within one year	**–**	3,031
– More than two years, but not exceeding five years	**826**	835
– More than five years	**30,279**	35,344
Subtotal	**31,105**	39,210
Capital supplementary bonds:		
Carrying amount repayable		
More than five years	**14,979**	–
Total	**46,084**	39,210

Terms of these subordinated debts and capital supplementary bonds are ten years. 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. The interest rates of the Group's subordinated debts are 3.65%-6.19% in the first five years (2015: 4.08%-6.19%) and 4.65%-8.19% in the second five years (2015: 6.08%-8.19%).

(Amounts in millions of Renminbi, unless otherwise stated)

37. INSURANCE CONTRACT LIABILITIES

	31 December 2016		
	Insurance contract liabilities	**Reinsurers' share**	**Net**
Long-term life and health insurance contracts (a)	**291,009**	**139**	**290,870**
Short-term health insurance contracts (b)			
– Claim reserves	**3,513**	**560**	**2,953**
– Unearned premium reserves	**1,498**	**92**	**1,406**
Non-life insurance contracts (c)			
– Claim reserves	**128,174**	**20,149**	**108,025**
– Unearned premium reserves	**114,319**	**10,079**	**104,240**
Total insurance contract liabilities	**538,513**	**31,019**	**507,494**

	31 December 2015		
	Insurance contract liabilities	Reinsurers' share	Net
Long-term life and health insurance contracts (a)	285,376	89	285,287
Short-term health insurance contracts (b)			
– Claim reserves	3,004	508	2,496
– Unearned premium reserves	1,734	88	1,646
Non-life insurance contracts (c)			
– Claim reserves	114,639	16,669	97,970
– Unearned premium reserves	102,933	9,188	93,745
Total insurance contract liabilities	507,686	26,542	481,144

(a) Long-term life and health insurance contracts

	Insurance contract liabilities	Reinsurers' share	Net
At 1 January 2015	276,238	65	276,173
Additions	102,457	43	102,414
Payments	(40,396)	(19)	(40,377)
Surrenders	(52,923)	–	(52,923)
At 31 December 2015	285,376	89	285,287
Additions	119,216	75	119,141
Payments	(49,504)	(25)	(49,479)
Surrenders	(64,079)	–	(64,079)
At 31 December 2016	291,009	139	290,870

(Amounts in millions of Renminbi, unless otherwise stated)

37. INSURANCE CONTRACT LIABILITIES *(continued)*

(b) Short-term health insurance contracts

(1) Claim reserves

	Insurance contract liabilities	Reinsurers' share	Net
At 1 January 2015	2,575	564	2,011
Claims incurred	7,734	1,975	5,759
Claims paid	(7,305)	(2,031)	(5,274)
At 31 December 2015	3,004	508	2,496
Claims incurred	9,180	2,194	6,986
Claims paid	(8,671)	(2,142)	(6,529)
At 31 December 2016	3,513	560	2,953

(2) Unearned premiums reserves

	Insurance contract liabilities	Reinsurers' share	Net
At 1 January 2015	1,467	93	1,374
Premiums written	10,062	1,631	8,431
Premiums earned	(9,795)	(1,636)	(8,159)
At 31 December 2015	1,734	88	1,646
Premiums written	10,804	2,012	8,792
Premiums earned	(11,040)	(2,008)	(9,032)
At 31 December 2016	1,498	92	1,406

(Amounts in millions of Renminbi, unless otherwise stated)

37. INSURANCE CONTRACT LIABILITIES *(continued)*

(c) Non-life insurance contracts

(1) Claim reserves

	Insurance contract liabilities	Reinsurers' share	Net
At 1 January 2015	102,702	15,673	87,029
Claims incurred	172,950	19,129	153,821
Claims paid	(161,013)	(18,133)	(142,880)
At 31 December 2015	114,639	16,669	97,970
Claims incurred	194,056	21,968	172,088
Claims paid	(180,521)	(18,488)	(162,033)
At 31 December 2016	128,174	20,149	108,025

(2) Unearned premium reserves

	Insurance contract liabilities	Reinsurers' share	Net
At 1 January 2015	95,658	9,462	86,196
Premiums written	281,817	29,158	252,659
Premiums earned	(274,542)	(29,432)	(245,110)
At 31 December 2015	102,933	9,188	93,745
Premiums written	311,306	30,026	281,280
Premiums earned	(299,920)	(29,135)	(270,785)
At 31 December 2016	114,319	10,079	104,240

38. INVESTMENT CONTRACT LIABILITIES FOR POLICYHOLDERS

	31 December 2016	31 December 2015
Interest-bearing deposits	**36,603**	25,823
Non-interest-bearing deposits	**1,767**	1,778
Total	**38,370**	27,601

(Amounts in millions of Renminbi, unless otherwise stated)

38. INVESTMENT CONTRACT LIABILITIES FOR POLICYHOLDERS *(continued)*

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

	31 December 2016	31 December 2015
Beginning of year	**27,601**	25,520
Deposits received after deducting fees	**16,582**	9,151
Deposits withdrawn	**(7,385)**	(8,269)
Interest credited *(note 9)*	**1,572**	1,199
End of year	**38,370**	27,601

The original maturities of these investment contracts are from repayable to demand to more than five years. These liabilities bear no interests or variable interest rates, which are declared by the Group regularly. The range of variable interest rates is from 0.36%-6.00% per annum as at 31 December 2016 (31 December 2015: 2.50%-6.00%).

39. 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:

	31 December 2016	31 December 2015
Beginning of year	**2,990**	2,862
Interest cost on benefit obligation *(note 9)*	**84**	101
Actuarial (gains)/losses arising from changes in financial assumptions	**(66)**	226
Actuarial losses arising from experience adjustments	**25**	46
Benefits paid	**(233)**	(245)
End of year	**2,800**	2,990

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 RMB41 million (2015: actuarial losses of RMB272 million) were credited to other comprehensive income for the current year of 2016.

Ernst & Young (China) Advisory Limited was engaged by the Group to measure the retirement benefit plans at the end of each annual reporting period.

(Amounts in millions of Renminbi, unless otherwise stated)

39. PENSION BENEFIT OBLIGATION *(continued)*

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

	31 December 2016	31 December 2015
Discount rates:		
– Early retirement benefits	**2.85%**	2.60%
– Retirement benefits	**3.05%**	2.85%
– Supplementary medical benefits	**3.25%**	3.00%
Average annual benefit growth rates:		
– 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. As at 31 December 2016, the durations of early retirement benefits, retirement benefits and supplementary medical benefits are 3.8, 8.3 and 12.1 as at 31 December 2016 (31 December 2015: 3.7, 8.6 and 12.8).

The maturity of these benefits, in terms of undiscounted cash flows, is presented in note 44(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 42(d)(3).

(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 2016	2015
Discount rate	+50bp	**(133)**	(150)
Discount rate	-50bp	**145**	164
Average annual benefit growth rate	+50bp	**143**	161
Average annual benefit growth rate	-50bp	**(133)**	(149)

40. OTHER LIABILITIES

	31 December 2016	31 December 2015
Premiums received in advance	**21,513**	16,054
Due to reinsurers	**19,302**	11,169
Salaries and welfare payable	**14,210**	12,139
Claims payable	**12,400**	8,451
Handling charges and commission payable	**7,376**	5,243
Business tax, net value added tax and other tax payable	**5,519**	5,141
Insurance security fund	**865**	803
Interests payable	**632**	719
Others	**9,933**	7,170
Total	**91,750**	66,889

(Amounts in millions of Renminbi, unless otherwise stated)

40. OTHER LIABILITIES *(continued)*

Premiums received in advance represent amounts collected from policies not yet effective as at the 31 December 2016 and 31 December 2015, and will be recognised as premium income with corresponding unearned premium reserves when the relevant policies become effective.

41. SHARE CAPITAL

	31 December 2016	31 December 2015
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

42. 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) Agriculture catastrophic loss reserve

According to the relevant regulations of the PRC, which became effective on 1 January 2014, the Group is required to make appropriations to a reserve when the agriculture insurance records underwriting profits. This reserve cannot be used for dividend distribution, but can be utilised when there are catastrophic losses. The reserve can be transferred to general risk reserve if the Group ceases writing agriculture insurance business.

(c) 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)

42. RESERVES *(continued)*

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

	Transactions with non-controlling interests *(1)*	Transfer to share capital *(2)*	Compensation for post-employment benefit obligation *(3) (note 39)*	Total
As at 1 January 2016	**85**	**(17,942)**	**2,847**	**(15,010)**
Changes	**(143)**	**–**	**–**	**(143)**
As at 31 December 2016	**(58)**	**(17,942)**	**2,847**	**(15,153)**

	Transactions with non-controlling interests *(1)*	Transfer to share capital *(2)*	Compensation for post-employment benefit obligation *(3) (note 39)*	Total
As at 1 January 2015	30	(17,942)	2,847	(15,065)
Changes	55	–	–	55
As at 31 December 2015	85	(17,942)	2,847	(15,010)

(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 25(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.

43. 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.

(Amounts in millions of Renminbi, unless otherwise stated)

43. RISK MANAGEMENT FRAMEWORK *(continued)*

(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.

The comprehensive and core solvency margin ratios of the Group's principal subsidiaries are listed below:

		31 December 2016	
(in RMB million)	**PICC P&C**	**PICC Life**	**PICC Health**
Actual capital	**140,793**	**46,380**	**6,695**
Core capital	**113,864**	**39,257**	**6,200**
Minimum capital	**49,071**	**26,263**	**3,107**
Comprehensive solvency margin ratio (%)	**287%**	**177%**	**215%**
Core solvency margin ratio (%)	**232%**	**149%**	**200%**

		31 December 2015	
(in RMB million)	PICC P&C	PICC Life	PICC Health
Regulatory capital held	85,356	36,599	3,191
Minimum regulatory capital	37,831	12,082	1,826
Solvency margin ratio	226%	303%	175%

Insurance companies carrying out business in China are required to comply with capital requirements imposed by CIRC. These capital requirements are generally known as solvency requirements in the insurance industry. Prior to 2016, the minimum regulatory capital requirement is calculated by reference to premiums written or claims paid, while the regulatory capital held is an adjusted net asset. Solvency margin ratio is the result of regulatory capital held divided by minimum regulatory capital. An insurance company was non-compliant with the solvency requirement if its ratio was less 100%; if it was between 100% and 150%, CIRC could order the insurance companies in question to submit and implement appropriate plans to prevent any further deterioration of the ratio.

For the current year, C-ROSS requires insurance companies to comply with both the core capital and actual capital (sum of core and supplementary capital). Under C-ROSS, the minimum capital is calculated by formula prescribed by the CIRC. The minimum capital requirements is a result of quantifications of underwriting risks, market risks, credit risks and results of an internal control assessment. For subsidiaries of the Group, core capital are principally net assets with adjustments to life insurance liabilities under solvency calculations, while supplementary capital are mainly subordinated debts and capital supplementary bonds issued by these subsidiaries.

CIRC can take a number of regulatory measures against any insurance company non-compliant with the solvency requirements. These regulatory measures include restriction on business scope, dividend distributions, investment strategy; order to transfer business or place reinsurance; removal of senior executives of the insurance companies.

43. RISK MANAGEMENT FRAMEWORK *(continued)*

(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.

44. 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 risk selection and implementation of underwriting strategy and guidelines.

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 and 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.

Prior to August 2013, traditional long-term life insurance products sold by the Group was priced at a valuation interest rate of 2.5% per annum. Subsequently, this pricing assumption was relaxed for traditional products in 2013 and then for participating products during the year ended 31 December 2015. Among the gross long-term liabilities of RMB291,009 million (31 December 2015: RMB285,376 million) as at 31 December 2016, RMB150,205 million (31 December 2015: RMB165,485 million) was reserved for products priced/guaranteed at 2.5%, while RMB118,016 million (31 December 2015: RMB103,689 million) was reserved for products priced/guaranteed at 4.025%. If the actual investment returns generated by premiums of long term life insurance products were less than those assumed in the pricing, the Group may incur losses on these insurance contracts.

Participating insurance products are very common in the Chinese market. Long term life insurance liabilities in relation to participating insurance products was RMB107,167 million (31 December 2015: RMB148,032 million) as at 31 December 2016, which constitutes around 37% (31 December 2015: 52%) of the total long term life insurance liabilities of the Group.

(Amounts in millions of Renminbi, unless otherwise stated)

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

(a) Insurance risk *(continued)*

(1) Insurance risk types (continued)

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

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:

	2016		2015	
	Gross	Net	Gross	Net
Coastal and developed provinces/cities (including Hong Kong)	142,076	127,400	127,798	113,327
North-eastern China	19,505	17,138	18,288	15,758
Northern China	40,178	36,928	37,656	34,914
Central China	42,620	39,119	36,733	33,260
Western China	66,927	60,695	61,342	55,399
Total premiums written from non-life insurance contracts	311,306	281,280	281,817	252,658

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 within non-life and short-term health insurance operations mainly through participation in reinsurance arrangements. The majority of the business ceded is placed on the quota share basis or the surplus line basis with retention limits varying by product lines. There are profit commission, sliding, scale commission and loss participation limit clauses in various proportional reinsurance contracts. Excess of loss catastrophic reinsurance is also arranged to limit the Group's exposure to certain catastrophic events.

Even though the Group may have reinsurance arrangements, it is not relieved of its direct obligations to its policyholders. During the year, the Group's non-life premiums ceded to the top three reinsurance companies amounted to RMB14,217 million (2015: RMB13,699 million) and thus a credit exposure exists with respect to the businesses ceded, to the extent that any of these reinsurers are unable to meet its obligations assumed under such reinsurance agreements.

(Amounts in millions of Renminbi, unless otherwise stated)

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

(a) Insurance risk *(continued)*

(3) Reinsurance (continued)

Reinsurance recoveries on unpaid claims are separately estimated for proportional treaties, facultative reinsurance arrangements and other treaties applying to parts of non-life insurance contracts.

Reinsurance	Estimation method
Proportional treaty	As a certain percentage of gross claim liabilities
Facultative	Case estimates of individual large claims multiplied by an IBNR ratio
Other treaties	Incurred claims loss development method and Bornhuetter-Ferguson method

(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.

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

	Change in assumptions	Pre-tax impact on profit and equity	
		2016	2015
Discount rate	+50bp	**5,085**	3,319
Discount rate	-50bp	**(5,606)**	(3,605)
Mortality/morbidity	10%	**(548)**	(288)
Mortality/morbidity	-10%	**561**	298
Lapse and surrenders rate	25%	**597**	697
Lapse and surrenders rate	-25%	**(651)**	(894)
Expenses	110%	**(166)**	(91)
Expenses	90%	**165**	91

(Amounts in millions of Renminbi, unless otherwise stated)

44. 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 health insurance contracts held by PICC Health:

	Change in assumptions	Pre-tax impact on profit and equity 2016	2015
Discount rate	+25bp	95	83
Discount rate	-25bp	(81)	(87)
Mortality/morbidity	10%	(47)	(32)
Mortality/morbidity	-10%	47	32
Lapse and surrenders rate	10%	73	27
Lapse and surrenders rate	-10%	(39)	(21)
Expenses	110%	(55)	(10)
Expenses	90%	55	10

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.

Non-life insurance and short-term health 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 speed 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 delays that arise 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 2016 and 2015.

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 RMB5,549 million as at 31 December 2016 (31 December 2015: RMB5,023 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)

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

(a) Insurance risk *(continued)*

(4) Key assumptions and sensitivity analysis (continued)

Non-life insurance and short-term health 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					
	2012	2013	2014	2015	**2016**	Total
Estimated cumulative claims:						
At the end of current year	113,646	138,400	150,920	168,832	**191,828**	763,626
One year later	113,687	138,624	150,167	168,206	**–**	570,684
Two years later	113,833	140,270	149,191	–	**–**	403,294
Three years later	113,902	140,225	–	–	**–**	254,127
Four years later	114,040	–	–	–	**–**	114,040
Estimated cumulative claims	114,040	140,225	149,191	168,206	**191,828**	763,490
Cumulative claims paid	(111,276)	(136,208)	(140,056)	(148,727)	**(119,598)**	(655,865)
Subtotal as at 31 December 2016						107,625
Unpaid claims prior to 2012, unallocated loss adjustment expenses, discount and risk margin						20,549
Non-life unpaid claim reserves, gross						128,174

(Amounts in millions of Renminbi, unless otherwise stated)

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

(a) Insurance risk *(continued)*

(4) Key assumptions and sensitivity analysis (continued)

Non-life insurance and short-term health 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					
	2012	2013	2014	2015	2016	Total
Estimated cumulative claims:						
At the end of current year	95,045	120,185	131,506	150,432	170,824	667,992
One year later	95,230	120,252	131,347	149,920	–	496,749
Two years later	95,211	120,321	130,602	–	–	346,134
Three years later	95,537	120,128	–	–	–	215,665
Four years later	95,641	–	–	–	–	95,641
Estimated cumulative claims	95,641	120,128	130,602	149,920	170,824	667,115
Cumulative claims paid	(93,406)	(117,321)	(123,038)	(133,929)	(110,219)	(577,913)
Subtotal as at 31 December 2016						89,202
Unpaid claims prior to 2012, unallocated loss adjustment expenses, discount and risk margin						18,823
Non-life unpaid claim reserves, net						108,025

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.

(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, debt investment schemes, interests receivable, other receivables, investments in debt securities, investments in trust schemes, insurance receivables and reinsurance arrangements. The Group holds a diversified portfolio of debt instrument and do not have concentration risk except for treasury bonds issued by Ministry of Finance. The amounts of MOF issued debt securities was RMB14,597 million (31 December 2015: RMB12,942 million) as at 31 December 2016.

(Amounts in millions of Renminbi, unless otherwise stated)

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

(b) Financial risks *(continued)*

(1) Credit risk (continued)

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 and Moody's) or above. Management performs regular assessment of creditworthiness of reinsurers to update reinsurance purchase strategies and ascertain suitable allowances for impairment of reinsurance assets.

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:

	31 December 2016	31 December 2015
Cash and cash equivalents	**46,728**	49,883
Derivative financial assets	**3**	8
Debt securities	**240,531**	232,147
Trust schemes	**7,266**	10,361
Insurance receivables	**34,339**	21,558
Reinsurance assets	**31,019**	26,542
Term deposits	**91,884**	148,097
Restricted statutory deposits	**9,911**	9,914
Investments classified as loans and receivables	**168,778**	110,485
Other financial assets	**25,601**	24,568
Total credit risk exposure	**656,060**	633,563

Included in cash and cash equivalents are certain securities purchased under resale agreements and the relevant collaterals are disclosed in note 17.

Included in investments classified as loans and receivables are debt investment schemes which are guaranteed by banks or other corporates. Their carrying values are disclosed in note 24.

(Amounts in millions of Renminbi, unless otherwise stated)

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

(b) Financial risks *(continued)*

(1) Credit risk (continued)

Ageing analysis of financial assets

	As at 31 December 2016						
		Past due but not impaired financial assets					
	Not past due	Within 30 days	31 to 90 days	Over 90 days	Subtotal	Past due and impaired	Total
Cash and cash equivalents	46,728	–	–	–	–	–	46,728
Derivative financial assets	3	–	–	–	–	–	3
Debt securities	240,531	–	–	–	–	–	240,531
Trust schemes	7,266	–	–	–	–	–	7,266
Insurance receivables	22,882	1,391	3,303	3,965	8,659	6,016	37,557
Reinsurance assets	31,019	–	–	–	–	–	31,019
Term deposits	91,884	–	–	–	–	–	91,884
Restricted statutory deposits	9,911	–	–	–	–	–	9,911
Investments classified as loans and receivables	168,778	–	–	–	–	–	168,778
Other financial assets	21,806	1,379	480	1,784	3,643	1,789	27,238
Total	640,808	2,770	3,783	5,749	12,302	7,805	660,915
Less: impairment losses	–	–	–	–	–	(4,855)	(4,855)
Net	640,808	2,770	3,783	5,749	12,302	2,950	656,060

	As at 31 December 2015						
		Past due but not impaired financial assets					
	Not past due	Within 30 days	31 to 90 days	Over 90 days	Subtotal	Past due and impaired	Total
Cash and cash equivalents	49,883	–	–	–	–	–	49,883
Derivative financial assets	8	–	–	–	–	–	8
Debt securities	232,147	–	–	–	–	26	232,173
Trust schemes	10,361	–	–	–	–	–	10,361
Insurance receivables	16,862	750	1,357	1,097	3,204	4,361	24,427
Reinsurance assets	26,542	–	–	–	–	–	26,542
Term deposits	148,097	–	–	–	–	–	148,097
Restricted statutory deposits	9,914	–	–	–	–	–	9,914
Investments classified as loans and receivables	110,485	–	–	–	–	–	110,485
Other financial assets	21,729	826	315	1,541	2,682	1,793	26,204
Total	626,028	1,576	1,672	2,638	5,886	6,180	638,094
Less: impairment losses	–	–	–	–	–	(4,531)	(4,531)
Net	626,028	1,576	1,672	2,638	5,886	1,649	633,563

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

(b) Financial risks *(continued)*

(1) Credit risk (continued)

Ageing analysis of financial assets (continued)

For receivables arising from direct insurance business, the Group assesses any impairment on a collective basis according to default history of similar lines of business and ageing. For financial assets other than receivables arising from direct insurance companies, the Group considers, on an individual basis, any default on amounts due, financial strength and repayment histories of the relevant counterparties when arriving at the amount of impairment.

Credit quality

The Group's debt securities investment mainly includes government bonds, financial bonds and corporate bonds. As at 31 December 2016, 100% (31 December 2015: 99.86%) of the corporate bonds held by the Group had credit rating of AA/A-2 or above. The bond's credit rating is assigned by a qualified appraisal institution in the PRC at the time of its issuance and updated at each reporting date.

As at 31 December 2016, 97.41% (as at 31 December 2015: 98.69%) of the Group's bank deposits are with the four largest state-owned commercial banks, other national commercial banks and China Securities Depository and Clearing Corporation Limited ("CSDCC") in the PRC. The Group believes these commercial banks, and CSDCC have a high credit quality.

The credit risk associated with securities purchased under agreements to resell will not cause a material impact on the Group's consolidated financial statements taking into consideration of their collateral held and maturity term of no more than one year as at 31 December 2016 and 2015.

(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. As disclosed in note 24, the Group holds certain financial instruments that are classified as loans and receivables as active markets do not exist for these instruments. The Group also classified certain debt securities as held-to-maturity financial assets and is only allowed to dispose of these financial assets prior to maturities in limited situation without tainting held-to-maturity financial assets. Therefore, the Group's ability to manage liquidity risks by disposing of these financial assets will be limited by these factors. Moreover, quoted financial assets held by the Group are mainly traded on the stock exchanges or in inter-bank markets in the Mainland China. Any significant decrease in liquidity in these markets will impair the Group's ability to manage its liquidity risk.

The Group manages the liquidity risks of its major operating subsidiaries by requiring them to perform cash flow forecasts on a quarterly basis under different scenarios and establish contingency plans for any expected shortfall of liquidity.

The Group held cash and cash equivalents which accounted for 5% of total assets as at 31 December 2016 (31 December 2015: 6%).

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.

(Amounts in millions of Renminbi, unless otherwise stated)

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

(b) Financial risks *(continued)*

(2) Liquidity risk (continued)

The table below summarises maturity profiles of financial/insurance assets, financial/insurance liabilities and pension benefit obligations of the Group.

Maturity profiles of financial assets and liabilities are prepared using the contractual collection or repayment dates.

For reinsurance assets, insurance and pension liabilities, the liquidity analysis presented below is prepared on the basis of expected timing of settlements of claims or benefits. These expected timing is made on the various assumptions, including settlement speed of non-life claims, surrenders of certain life insurance policies, and longevity of retired former employees. Therefore, actual timing can deviate from the analysis presented below.

All amounts are based on undiscounted contractual cash flows.

	As at 31 December 2016						
	Past due/ repayable on demand	Within 3 months	3 to 12 months	1 to 5 years	More than 5 years	No maturity date	Total
Cash and cash equivalents	32,152	14,656	–	–	–	–	46,808
Derivative financial assets	–	–	1	1	–	–	2
Debt securities	–	7,801	34,756	96,661	190,992	–	330,210
Equity securities, mutual funds and trust schemes	–	–	425	8,182	1,000	142,284	151,891
Insurance receivables, net	12,759	13,188	5,261	3,043	88	–	34,339
Reinsurance assets	–	5,519	15,116	7,659	3,021	–	31,315
Term deposits	–	14,982	16,120	61,107	12,509	–	104,718
Restricted statutory deposits	–	905	1,741	8,733	49	–	11,428
Investments classified as loans and receivables	–	14,519	47,189	99,145	39,269	–	200,122
Other financial assets	5,466	10,755	7,275	2,084	135	–	25,715
Total financial and reinsurance assets	50,377	82,325	127,884	286,615	247,063	142,284	936,548
Securities sold under agreements to repurchase	–	33,114	–	–	–	–	33,114
Bonds payable	–	–	1,627	11,329	53,389	–	66,345
Insurance contract liabilities	–	80,335	200,976	136,730	312,700	–	730,741
Investment contract liabilities for policyholders	195	2,642	768	1,416	4,077	29,293	38,391
Policyholder dividends payable	7,062	–	–	2	–	–	7,064
Pension benefit obligation	–	51	151	771	3,029	–	4,002
Other financial liabilities	23,504	28,795	9,292	2,951	90	–	64,632
Total financial, insurance and pension liabilities	30,761	144,937	212,814	153,199	373,285	29,293	944,289

(Amounts in millions of Renminbi, unless otherwise stated)

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

(b) Financial risks *(continued)*

(2) Liquidity risk (continued)

	As at 31 December 2015						
	Past due/ repayable on demand	Within 3 months	3 to 12 months	1 to 5 years	More than 5 years	No maturity date	Total
Cash and cash equivalents	31,656	19,143	–	–	–	–	50,799
Derivative financial assets	–	–	2	3	–	–	5
Debt securities	–	4,588	18,198	97,793	199,437	–	320,016
Equity securities, mutual funds and trust schemes	–	–	761	11,917	1,000	113,914	127,592
Insurance receivables, net	5,124	10,472	3,255	2,666	41	–	21,558
Reinsurance assets	–	4,051	13,643	6,821	2,336	–	26,851
Term deposits	–	11,850	53,999	97,802	538	–	164,189
Restricted statutory deposits	–	20	4,748	6,412	–	–	11,180
Investments classified as loans and receivables	–	1,893	13,329	90,357	35,068	–	140,647
Other financial assets	5,526	9,332	7,786	1,855	125	–	24,624
Total financial and reinsurance assets	42,306	61,349	115,721	315,626	238,545	113,914	887,461
Securities sold under agreements to repurchase	–	28,240	–	–	–	–	28,240
Due to banks and other financial institutions	–	16	161	950	201	–	1,328
Bonds payable	–	–	4,427	10,135	42,103	–	56,665
Insurance contract liabilities	–	64,633	193,504	176,137	175,009	–	609,283
Investment contract liabilities for policyholders	44	894	1,224	2,013	4,408	19,086	27,669
Policyholder dividends payable	8,112	–	–	2	–	–	8,114
Pension benefit obligation	–	51	152	779	3,254	–	4,236
Other financial liabilities	10,778	24,627	8,451	1,788	52	–	45,696
Total financial, insurance and pension liabilities	18,934	118,461	207,919	191,804	225,027	19,086	781,231

(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.

(Amounts in millions of Renminbi, unless otherwise stated)

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

(b) Financial risks *(continued)*

(3) Market risk (continued)

Foreign currency risk

Currency risk is the risk that the 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, and is also exposed to foreign exchange risk respect to United States dollar ("USD") because certain non-life insurance contracts are denominated in USD. The Group seeks to limit its exposure to foreign currency risk by minimising its net foreign currency position.

The table below summarises the Group's assets and liabilities by major currency, expressed in the RMB equivalent:

31 December 2016	RMB	HKD	USD	Others	Total
Cash and cash equivalents	41,487	1,505	3,719	18	46,729
Derivative financial assets	3	–	–	–	3
Debt securities	239,678	–	853	–	240,531
Equity securities, mutual funds and trust schemes	142,319	6,836	1,395	–	150,550
Insurance receivables	29,991	39	4,234	75	34,339
Reinsurance assets	29,718	146	1,133	22	31,019
Term deposits	88,882	12	2,990	–	91,884
Restricted statutory deposits	9,911	–	–	–	9,911
Investments classified as loans and receivables	168,778	–	–	–	168,778
Other financial assets	25,218	37	343	3	25,601
Total assets	775,985	8,575	14,667	118	799,345
Securities sold under agreements to repurchase	33,066	–	–	–	33,066
Bonds payable	46,084	–	–	–	46,084
Insurance contract liabilities	535,790	863	1,803	57	538,513
Investment contract liabilities for policyholders	38,370	–	–	–	38,370
Policyholder dividends payable	7,064	–	–	–	7,064
Pension benefit obligation	2,800	–	–	–	2,800
Other financial liabilities	61,883	113	2,592	44	64,632
Total liabilities	725,057	976	4,395	101	730,529

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

(b) Financial risks *(continued)*

(3) Market risk (continued)

Foreign currency risk (continued)

31 December 2015	RMB	HKD	USD	Others	Total
Cash and cash equivalents	43,456	1,614	4,790	24	49,884
Derivative financial assets	8	–	–	–	8
Debt securities	231,071	–	1,076	–	232,147
Equity securities, mutual funds and trust schemes	121,783	2,562	930	–	125,275
Insurance receivables	18,106	40	3,359	53	21,558
Reinsurance assets	25,243	79	1,207	13	26,542
Term deposits	144,657	–	3,440	–	148,097
Restricted statutory deposits	9,914	–	–	–	9,914
Investments classified as loans and receivables	110,485	–	–	–	110,485
Other financial assets	24,214	17	322	15	24,568
Total assets	728,937	4,312	15,124	105	748,478
Securities sold under agreements to repurchase	28,231	–	–	–	28,231
Due to banks and other financial institutions	980	–	–	–	980
Bonds payable	39,210	–	–	–	39,210
Insurance contract liabilities	505,111	745	1,782	48	507,686
Investment contract liabilities for policyholders	27,601	–	–	–	27,601
Policyholder dividends payable	8,114	–	–	–	8,114
Pension benefit obligation	2,990	–	–	–	2,990
Other financial liabilities	43,239	80	2,342	35	45,696
Total liabilities	655,476	825	4,124	83	660,508

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.

	31 December 2016	
Exchange rate of foreign currencies (in millions of RMB)	**Pre-tax impact on profit**	**Pre-tax impact on equity**
+5%	**440**	**894**
-5%	**(440)**	**(894)**

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

(b) Financial risks *(continued)*

(3) Market risk (continued)

Foreign currency risk (continued)

Sensitivity analysis *(continued)*

Exchange rate of foreign currencies (in millions of RMB)	31 December 2015 Pre-tax impact on profit	Pre-tax impact on equity
+5%	497	725
-5%	(497)	(725)

The method used for deriving sensitivity information and significant variables did not change from the previous year.

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 2016	2015
Interest rate VaR	1,080	758

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.

(Amounts in millions of Renminbi, unless otherwise stated)

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

(b) Financial risks *(continued)*

(3) Market risk (continued)

Price risk (continued)

The Group holds a diversified portfolio of equity instruments and therefore do not have significant concentration risk in any particular individual instrument. However, the Group principally invest in the stock markets of Hong Kong and Mainland China and is subject to price risk arising from volatilities of these two markets.

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 mutual fund investments measured at fair value (other than those measured at level 3 fair value) over a holding period of 10 trading days at a confidence level of 99%.

The VaR methodology quantifies the potential maximum loss under the assumption of normal market conditions only, and therefore when extreme market events occur, the potential maximum 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 trading days. The said assumption may not be correct in reality, especially in a market which lacks liquidity.

	As at 31 December	
	2016	2015
Equity price VaR	**3,307**	4,713

(Amounts in millions of Renminbi, unless otherwise stated)

45. FAIR VALUE AND FAIR VALUE HIERARCHY

Classification of financial instruments

The Group's financial instruments mainly consist of cash and cash equivalents, term deposits, derivative financial assets, debt securities, equity securities, mutual funds and trust schemes, investments classified as loans and receivables, securities sold under agreement to repurchase and bonds payable, etc. The Group holds various other financial assets and liabilities which directly arose from insurance operations, such as insurance receivables, and investment contract liabilities for policyholder, etc. The following table sets out the carrying values and fair values of the Group's major financial instruments by classification:

	Carrying amount		Fair value	
	31 December 2016	31 December 2015	**31 December 2016**	31 December 2015
Financial Assets				
Cash and cash equivalents	**46,729**	49,884	**46,729**	49,884
Held-for-trading				
– Equity securities, mutual funds and trust schemes	**31,062**	28,734	**31,062**	28,734
– Debt securities	**4,109**	768	**4,109**	768
– Derivative financial assets	**3**	8	**3**	8
Available-for-sale				
– Equity securities, mutual funds and trust schemes	**119,381**	96,038	**119,381**	96,038
– Debt securities	**114,591**	106,348	**114,591**	106,348
Held-to-maturity investment				
– Debt securities	**121,831**	125,031	**127,961**	135,899
Loans and receivables				
– Insurance receivables, net	**34,339**	21,558	**34,339**	21,558
– Term deposits	**91,884**	148,097	**91,884**	148,097
– Restricted statutory deposits	**9,911**	9,914	**9,911**	9,914
– Investments classified as loans and receivables	**168,778**	110,485	**177,052**	121,760
– Other assets	**25,601**	24,568	**25,601**	24,568
Total financial assets	**768,219**	721,433	**782,623**	743,576
Financial liabilities				
Other financial liabilities – measured at amortised cost				
– Securities sold under agreement to repurchase	**33,066**	28,231	**33,066**	28,231
– Due to banks and other financial institutions	**–**	980	**–**	980
– Bonds payable	**46,084**	39,210	**49,328**	44,337
– Investment contract liabilities for policyholders	**38,370**	27,601	**38,370**	27,601
– Policyholder dividends payable	**7,064**	8,114	**7,064**	8,114
– Other liabilities	**64,632**	45,696	**64,632**	45,696
Total financial liabilities	**189,216**	149,832	**192,460**	154,959

(Amounts in millions of Renminbi, unless otherwise stated)

45. FAIR VALUE AND FAIR VALUE HIERARCHY *(continued)*

Determination of fair value and the fair value hierarchy

This note provides information on how the Group determine the fair values of various financial assets and liabilities. Details of fair value measurements of investment properties are disclosed in note 27 to these financial statements.

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.

(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 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).

Items	Fair value 31 December 2016	Fair value 31 December 2015	Fair value hierarchy	Valuation technique(s) and key input(s)
Derivative financial assets-Interest rate swaps	3	8	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.
Held for trading debt securities	187	36	Level 1	Quoted bid prices in an active market.
Held for trading debt securities	3,922	732	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	11,936	20,571	Level 1	Quoted bid prices in an active market.
Available-for-sale debt securities	102,655	85,777	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.
Held for trading equity securities and mutual funds	31,062	28,734	Level 1	Quoted bid prices in an active market.
Available-for-sale equity securities and mutual funds	85,316	68,951	Level 1	Quoted bid prices in an active market.
Available-for-sale equity securities and mutual funds	10,704	9,365	Level 2	Discounted cash flow with future cash flows that are estimated based on expected amounts and dividend rates, discounted at a rate that reflects the risk characteristic of the instrument.

(Amounts in millions of Renminbi, unless otherwise stated)

45. 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)*

Items	Fair value 31 December 2016	Fair value 31 December 2015	Fair value hierarchy	Valuation technique(s) and key input(s)
Available-for-sale equity securities and mutual funds	3,554	–	Level 3	Quoted bid prices adjusted by a liquidity discount determined by the Black-Scholes option pricing model. The key input is historical volatility of the share prices of the securities.
Available-for-sale equity securities and mutual funds	7,920	3,013	Level 3	The fair value is determined with reference to the quoted market price and latest round of financing price with an adjustment of discount for lack of marketability.
Available-for-sale equity securities and mutual funds	1,021	548	Level 3	Relative value that are assessed based on average pricing-to-earnings ratio from comparative companies and earnings per share of target company.
Available-for-sale equity securities, mutual funds and trust schemes	10,866	14,161	Level 3	Discounted cash flow with future cash flows that are estimated based on contractual amounts and dividend rates, discounted at a rate that reflects the risk characteristic of the counterparty.

As at 31 December 2016, the Group transferred certain debt securities with a carrying amount of RMB4,838 million (2015: RMB6,122 million) from Level 1 to Level 2 as the Group could not obtain quoted prices in active markets. The Group transferred debt securities with a carrying amount of RMB2,800 million (2015: RMB5,076 million) from Level 2 to Level 1 as the Group is able to obtain quoted prices in active markets.

(b) Fair value of financial assets and liabilities not carried at fair value

Some of the Group's financial assets and financial liabilities are not carried at fair value at the end of each reporting period but their fair values are disclosed in the table set out at the beginning of this note. The level of fair value in the fair value hierarchy in respect of these fair values disclosed are as the following:

	Fair value hierarchy at 31 December 2016		
	Level 1	**Level 2**	**Total**
Financial assets:			
Held-to-maturity financial assets	**658**	**127,303**	**127,961**
Investments classified as loans and receivables	**–**	**177,052**	**177,052**
Financial liabilities:			
Bonds payable	**–**	**49,328**	**49,328**

	Fair value hierarchy at 31 December 2015		
	Level 1	Level 2	Total
Financial assets:			
Held-to-maturity financial assets	3,126	132,773	135,899
Investments classified as loans and receivables	–	121,760	121,760
Financial liabilities:			
Bonds payable	–	44,337	44,337

(Amounts in millions of Renminbi, unless otherwise stated)

45. FAIR VALUE AND FAIR VALUE HIERARCHY *(continued)*

(b) Fair value of financial assets and liabilities not carried at fair value *(continued)*

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 or the Group.

(c) Reconciliation of Level 3 fair value measurements

	31 December 2016	31 December 2015
Unlisted available-for-sale financial assets		
Opening balance	**17,722**	21,300
Unrealised gains recognised in other comprehensive income	**942**	–
Reclassification from cost to fair value	**400**	1,766
Additions	**7,392**	4,595
Disposals	**(3,095)**	(9,939)
Closing balance	**23,361**	17,722

Certain available-for-sale were reclassified from being measured at cost to be measured at fair value as management is of the opinion fair value measurement can provide more relevant information to users of these financial statements.

An equity investment of RMB3,554 million classified as available-for-sale equity securities is subject to a lock-up period of 6 months from September 2016 to April 2017. To determine the fair value of the investment, the Group used quoted price of the shares taking into account of non-marketability discount estimated using Black-Scholes option pricing model. The Group 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 available-for-sale investment was classified as Level 3 fair value hierarchy. The historical volatilities used in measuring the fair value of shares of the investment as at 31 December 2016 are 6.65%. If this input was made higher/lower by 5% while all the other variables were held constant, the carrying amount of the shares as at 31 December 2016 would be lower/higher by approximately RMB73 million.

Fair values of trust schemes of RMB7,266 million (2015: RMB10,361 million) are measured by discounted cash flows that are estimated based on contractual amounts and dividend rates, discounted at a rate that reflects the risk characteristics of the counterparty. A 50-basis point increase/decrease in the discount rate holding other variables constant will result in a decrease/increase in carrying amount by RMB45 million/RMB55 million (31 December 2015: RMB107million/RMB121 million).

As the fair values of all investment properties are categorised as Level 3, reconciliation of the fair value movements are presented in note 27 to these consolidated financial statements.

(Amounts in millions of Renminbi, unless otherwise stated)

46. 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 an outflow of resources embodying economic benefits is not probable.

(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 offsetting. Potentially, certain receivables or payables may exist between these two 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, prepaid land premiums 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 2016, the Group had no significant contingencies to disclose.

(b) Capital commitments and operating leases

(1) Capital commitments

	31 December 2016	31 December 2015
Property and equipment commitments:		
Contracted, but not provided for	**2,472**	2,466

(2) Operating leases

(i) As lessor

The Group leases its investment properties (note 27) 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.

(Amounts in millions of Renminbi, unless otherwise stated)

46. CONTINGENCIES AND COMMITMENTS *(continued)*

(b) Capital commitments and operating leases *(continued)*

(2) Operating leases (continued)

(i) As lessor (continued)

At the end of 2016 and 2015, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	31 December 2016	31 December 2015
Within one year	**340**	305
In the second to fifth years, inclusive	**598**	446
After five years	**246**	81
Total	**1,184**	832

(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 2016 and 2015 are as follows:

	31 December 2016	31 December 2015
Within one year	**511**	463
In the second to fifth years, inclusive	**1,224**	920
After five years	**549**	271
Total	**2,284**	1,654

47. 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 25 for more details of the Company's major subsidiaries.

(Amounts in millions of Renminbi, unless otherwise stated)

47. RELATED PARTY DISCLOSURES *(continued)*

(b) During the year, the Group had the following significant related party transactions:

	2016	2015
Transactions with associates:		
Industrial Bank		
Gross written premiums	**480**	718
Interest income	**173**	177
Net claims and policyholders' benefits	**552**	579
Handling charges and commissions	**7**	3
Finance costs	**133**	133
Dividend received – from common shares	**1,634**	1,180
Dividend received – from preference shares	**26**	2
China Credit Trust		
Management fees expenses	**120**	300
Dividend received	**–**	129
Hua Xia Bank		
Gross written premiums	**18**	N/A
Interest income	**59**	N/A
Net claims and policyholders' benefits	**9**	N/A

Other transactions with these associates were conducted on a basis with reference to prevailing rates with other third parties.

(c) **Compensation of key management personnel**

Key management personnel of the Company include Directors, Supervisors and Senior Management. The summary of compensation of key management personnel for 2016 and 2015 is as follows:

	2016 (in RMB'000)	2015 (in RMB'000) (Restated)
Short-term employee benefits	**10,521**	9,791
Other long-term benefits	**8,450**	9,675
Retiring benefits	**753**	691
Total compensation paid to key management personnel	**19,724**	20,157

Further details of directors and supervisors' emoluments are included in note 12 to the consolidated financial statements.

(Amounts in millions of Renminbi, unless otherwise stated)

47. RELATED PARTY DISCLOSURES *(continued)*

(d) Balances with related parties

Receivables from associates	31 December 2016	31 December 2015
Industrial Bank		
Cash and cash equivalents	**42**	376
Debt securities	**2,915**	3,115
Equity securities	**447**	460
Term deposits	**10,927**	700
Investments classified as loans and receivables	**2,900**	13
Other assets	**127**	133
China Credit Trust		
A trust scheme	**7,266**	10,361
Hua Xia Bank		
Cash and cash equivalents	**2**	N/A
Term deposits	**8,500**	N/A
Other assets	**208**	N/A
Total	**33,334**	15,158

Receivables from a major shareholder	31 December 2016	31 December 2015
Other assets		
MOF	**344**	344

A trust scheme of RMB7,266 million (31 December 2015: RMB10,361 million) is controlled by China Credit Trust.

Payables to associates	31 December 2016	31 December 2015
Industrial Bank		
Bonds payable	**2,416**	2,411
Other liabilities	**51**	51
Hua Xia Bank		
Bonds payable	**103**	N/A
Other liabilities	**2**	N/A
Total	**2,572**	2,462

(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 dominated 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").

(Amounts in millions of Renminbi, unless otherwise stated)

47. RELATED PARTY DISCLOSURES *(continued)*

(e) Transactions with state-owned entities in the PRC *(continued)*

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.

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.

48. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	31 December 2016	31 December 2015
ASSETS		
Cash and cash equivalents	5,984	7,323
Debt securities	323	519
Equity securities and mutual funds	7,648	7,248
Term deposits	135	124
Investments classified as loans and receivables	2,806	2,346
Investments in subsidiaries	82,318	81,318
Investments in associates	5,137	4,681
Investment properties	1,201	1,191
Property and equipment	158	184
Intangible assets	25	25
Prepaid land premiums	67	69
Other assets	2,080	711
TOTAL ASSETS	107,882	105,739
LIABILITIES		
Securities sold under agreement to repurchase	–	60
Bonds payable	15,984	15,973
Pension benefit obligation	2,800	2,990
Other liabilities	1,406	1,346
TOTAL LIABILITIES	20,190	20,369
EQUITY		
Share capital	42,424	42,424
Reserves	45,268	42,946
TOTAL EQUITY	87,692	85,370
TOTAL EQUITY AND LIABILITIES	107,882	105,739

(Amounts in millions of Renminbi, unless otherwise stated)

49. STATEMENT OF CHANGES IN EQUITY OF THE COMPANY

	2016								
	Share capital	Share premium account	Available-for-sale investment revaluation reserve (restated)	Surplus reserve fund*	Share of other comprehensive income of associates (restated)	Other reserves	Actuarial (losses)/gains on pension benefit obligation	Retained profits	Total equity
Balance at 1 January 2016	42,424	19,925	1,171	1,101	166	11,672	(693)	9,604	85,370
Profit for the year	–	–	–	–	–	–	–	3,093	3,093
Other comprehensive income	–	–	124	–	23	–	41	–	188
Total comprehensive income	–	–	124	–	23	–	41	3,093	3,281
Appropriations to surplus reserve fund	–	–	–	309	–	–	–	(309)	–
Dividends paid to shareholders	–	–	–	–	–	–	–	(959)	(959)
Balance at 31 December 2016	42,424	19,925	1,295	1,410	189	11,672	(652)	11,429	87,692

	2015								
	Share capital	Share premium account	Available-for-sale investment revaluation reserve (restated)	Surplus reserve fund*	Share of other comprehensive income of associates (restated)	Other reserves	Actuarial losses on pension benefit obligation	Retained profits	Total equity
Balance at 1 January 2015	42,424	19,925	897	802	166	11,672	–	6,897	82,783
Profit for the year	–	–	–	–	–	–	–	2,987	2,987
Other comprehensive income/(expense)	–	–	274	–	–	–	(693)	421	2
Total comprehensive income/(expense)	–	–	274	–	–	–	(693)	3,408	2,989
Appropriations to surplus reserve fund	–	–	–	299	–	–	–	(299)	–
Dividends paid to shareholders	–	–	–	–	–	–	–	(402)	(402)
Balance at 31 December 2015	42,424	19,925	1,171	1,101	166	11,672	(693)	9,604	85,370

* This reserve contains both statutory and discretionary surplus reserves.

50. EVENT AFTER THE REPORTING PERIOD

On 24 March 2017, the Board of Directors of the Company proposed a final dividend of RMB3.37881 cent per ordinary share and is subject to the approval of shareholders' general meeting of the Company.

51. APPROVAL OF THE FINANCIAL STATEMENTS

These consolidated financial statements were approved by the Board of Directors of the Company on 24 March 2017.

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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Certified Public Accountants LLP

Consulting Actuaries:
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LEGAL ADVISORS

as to Hong Kong law
Davis Polk & Wardwell

as to PRC law
King & Wood Mallesons

中国人民保险集团股份有限公司

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