



MANAGEMENT DISCUSSION AND ANALYSIS



MANAGEMENT DISCUSSION AND ANALYSIS

GROUP'S CONSOLIDATED PERFORMANCE

The following is a summary of the consolidated results of the Group:

For the year ended December 31, (in RMB million)	2005	2004
Total revenue	64,590	63,193
Total claims, policyholders' benefits and expenses	(59,778)	(59,446)
Operating profit	4,812	3,747
Net profit	4,265	3,146

The following table sets forth the breakdown of our net profit by business segment:

For the year ended December 31, (in RMB million)	2005	2004
Life insurance	3,551	2,704
Property and casualty insurance	422	217
Other businesses	292	225
Net profit	4,265	3,146

Consolidated net profit increased 35.6% to RMB4,265 million in 2005 from RMB3,146 million in 2004. This increase was primarily due to the better performance in our core life insurance and property and casualty insurance businesses, which accounted for approximately 83.3% and 9.9%, respectively, of our net profit.

Factors attributing to our improved performance include improved product mix of our life insurance business, better results from our property and casualty insurance business, and better total investment returns.

Consolidated Investment Income

For the year ended December 31, (in RMB million, except percentages)	2005	2004
Net investment income	9,338	7,219
Net realized and unrealized gains/(losses)	317	(773)
Total investment income	9,655	6,446
Net investment yield ⁽¹⁾	4.2%	4.1%
Total investment yield⁽¹⁾	4.3%	3.6%

(1) Net investment yield and total investment yield are computed without considering exchange gains/(losses) associated with foreign currency denominated investment assets.

Our net investment income increased 29.4% to RMB9,338 million in 2005 from RMB7,219 million in 2004. This increase was primarily due to the increase in our investment assets to RMB246,748 million as at December 31, 2005 from RMB201,125 million as at December 31, 2004. Net investment yield increased to 4.2% in 2005 from 4.1% in 2004.

Our total investment income increased 49.8% to RMB9,655 million in 2005 from RMB6,446 million in 2004. Total investment yield increased to 4.3% in 2005 from 3.6% in 2004. These increases were primarily due to improved performance in the PRC equity markets resulting in an investment gain in 2005 as compared to the investment loss suffered in 2004. In addition, the decrease in bond yield rates has resulted in a higher valuation of our bond investments that were "carried at fair value through profit or loss". As a result, the net realized and unrealized gains in 2005 were RMB317 million as compared to net realized and unrealized losses of RMB773 million in 2004.

We continued to improve the asset allocation of our portfolio in response to the changes in the capital markets. As a result, our bond investment as a percentage of our total investment assets increased to 64.8% as at December 31, 2005 from 56.1% as at December 31, 2004, and our equity investments increased to 6.2% as at December 31, 2005 from 2.9% as at December 31, 2004. In addition, we were able to achieve an average yield of 4.2% from our new money investment in bonds during the year of 2005.

The following table presents our investment portfolio allocations among the major categories of our investments:

As at December 31, (in RMB million, except percentages)	2005		2004	
	Carrying Value	% of Total	Carrying Value	% of Total
Fixed maturity investments				
Term deposits	68,959	27.9%	80,320	39.9%
Bond investments ⁽¹⁾	159,776	64.8%	112,860	56.1%
Other fixed maturity investments	1,526	0.6%	675	0.3%
Equity investments ⁽²⁾	15,244	6.2%	5,766	2.9%
Investment properties	1,243	0.5%	1,504	0.8%
Total investments	246,748	100.0%	201,125	100.0%

(1) Bond investments include the carrying value of derivatives embedded with the host contracts.

(2) Equity investments include equity investment funds, equity securities and investment in an associate.

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Foreign currency gains/(losses)

In 2005, the PRC currency, Renminbi, appreciated against other major currencies. As a result, we experienced a net exchange loss of RMB405 million.

LIFE INSURANCE BUSINESS

Results of Operations

The following is a summary of the results of our life insurance business:

For the year ended December 31, (in RMB million)	2005	2004
Gross written premiums, policy fees and premium deposits	58,691	54,729
Less: Premium deposits	(11,746)	(4,846)
Gross written premiums and policy fees	46,945	49,883
Net earned premiums	45,804	48,956
Investment income	8,536	5,746
Other income	258	510
Total revenue	54,598	55,212
Change in deferred policy acquisition costs	3,645	2,071
Increase in policyholders' reserves	(29,557)	(33,872)
Claims and policyholders' benefits	(15,559)	(12,032)
Commission expenses	(5,168)	(4,577)
Changes in fair value of derivative financial liabilities	(6)	(80)
General, administrative and other expenses	(4,278)	(3,685)
Total expenses	(50,923)	(52,175)
Income taxes	(124)	(333)
Net profit	3,551	2,704

Gross Written Premiums, Policy Fees and Premium Deposits

For the year ended December 31, (in RMB million)	2005	2004
Individual life		
First year premiums and policy fees	8,125	7,628
First year premium deposits	3,447	1,333
Total first year premiums, policy fees and premium deposits	11,572	8,961
Renewal premiums and policy fees	30,633	28,321
Renewal premium deposits	3,964	2,882
Total renewal premiums, policy fees and premium deposits	34,597	31,203
Total individual life	46,169	40,164
Bancassurance		
Gross written premiums and policy fees	1,133	5,836
Premium deposits	4,091	81
Total bancassurance	5,224	5,917
Group insurance		
Long term life gross written premiums and policy fees	5,064	6,648
Short term life gross written premiums	1,990	1,450
Premium deposits	244	550
Total group insurance	7,298	8,648
Total life insurance		
Gross written premiums and policy fees	46,945	49,883
Premium deposits	11,746	4,846
Total gross written premiums, policy fees and premium deposits	58,691	54,729

Individual Life Business. Gross written premiums, policy fees and premium deposits for our individual life business increased 15.0% to RMB46,169 million in 2005 from RMB40,164 million in 2004. This increase was primarily due to the 10.9% increase in renewal premiums, policy fees and premium deposits to RMB34,597 million in 2005 from RMB31,203 million in 2004. In addition, first year premiums, policy fees and premium deposits for our individual life business increased 29.1% to RMB11,572 million in 2005 from RMB8,961 million in 2004. These increases were primarily due to the continued improvement in the quality and productivity of our agency force. In addition, our universal life products provided growth momentum in 2005.

Bancassurance Business. Gross written premiums, policy fees and premium deposits for our bancassurance business decreased 11.7% to RMB5,224 million in 2005 from RMB5,917 million in 2004. This decrease was primarily due to our continued efforts to manage the growth of this business line to preserve profit margin.

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Group Insurance Business. Gross written premiums, policy fees and premium deposits for our group insurance business decreased 15.6% to RMB7,298 million in 2005 from RMB8,648 million in 2004. This decrease was primarily due to our continued efforts to manage the growth of this business line to improve profit margin. We continued to focus on selling employer welfare benefit plans. As a result, gross written premiums and policy fees for our short-term accident and health insurance business increased 37.2% to RMB1,990 million in 2005 from RMB1,450 million in 2004.

Investment Income

Net investment income for our life insurance business increased 27.6% to RMB8,293 million in 2005 from RMB6,501 million in 2004. This increase was primarily due to the increase in investment assets to RMB222,073 million as at December 31, 2005 from RMB180,928 million as at December 31, 2004. Net investment yield for our life insurance business increased to 4.2% in 2005 from 4.1% in 2004.

Total investment income for our life insurance business increased 48.6% to RMB8,536 million in 2005 from RMB5,746 million in 2004. Total investment yield for our life insurance business increased to 4.3% in 2005 from 3.7% in 2004.

For the year ended December 31, (in RMB million, except percentages)

	2005	2004
Net investment income	8,293	6,501
Net investment yield ⁽¹⁾	4.2%	4.1%
Total investment income	8,536	5,746
Total investment yield ⁽¹⁾	4.3%	3.7%

(1) Net investment yield and total investment yield are computed without considering exchange gains/(losses) associated with foreign currency denominated investment assets.

Change in Deferred Policy Acquisition Costs

The change in deferred policy acquisition costs was RMB3,645 million in 2005 as compared to RMB2,071 million in 2004. The bigger change in deferred policy acquisition costs was primarily due to the significant increase in first year premiums, policy fees and premium deposits from individual life business.

Increase in Policyholders' Reserves

The increase in policyholders' reserves was RMB29,557 million in 2005 as compared to RMB33,872 million in 2004. The smaller increase in policyholders' reserves was primarily due to the increase in payment for claims and policyholders' benefits, and the increase in sales of universal life products. A portion of the policyholders' liabilities for universal life products was recorded as policyholder contract deposits instead of policyholders' reserves.

Claims and Policyholders' Benefits

Claims and policyholders' benefits increased 29.3% to RMB15,559 million in 2005 from RMB12,032 million in 2004. Claims and policyholders' benefits as a percentage of gross written premiums, policy fees and premium deposits increased to 26.5% in 2005 from 22.0% in 2004. These increases were primarily due to the increase in payments for maturities and survival benefits, and surrenders of insurance policies. Payments for maturities and survival benefits increased 52.6% to RMB3,824 million in 2005 from RMB2,506 million in 2004. Payments for surrenders of insurance policies increased 45.3% to RMB5,618 million in 2005 from RMB3,866 million in 2004.

The following table summarizes total expenses pursuant to claims, surrenders, annuities, maturities and survival benefits, policyholders' dividends and provisions, and interest credited to policyholder contract deposits.

For the year ended December 31, (in RMB million)	2005	2004
Claims	3,066	2,545
Surrenders	5,618	3,866
Annuities	1,815	2,286
Maturities and survival benefits	3,824	2,506
Policyholders' dividends and provisions	1,064	822
Interest credited to policyholder contract deposits	172	7
Total claims and policyholders' benefits	15,559	12,032

Commission Expenses

For the year ended December 31,	2005	2004
Commission expenses as a percentage of gross written premiums, policy fees and premium deposits	8.8%	8.4%

Commission expenses, which we paid primarily to our sales agents, increased 12.9% to RMB5,168 million in 2005 from RMB4,577 million in 2004. Commission expenses as a percentage of gross written premiums, policy fees, and premium deposits increased to 8.8% in 2005 from 8.4% in 2004. These increases were primarily due to the increase in first year premiums, policy fees and premium deposits from individual life products.

General, Administrative and Other Expenses

For the year ended December 31,	2005	2004
General, administrative and other expenses as a percentage of gross written premiums, policy fees and premium deposits	7.3%	6.7%

General, administrative and other expenses increased 16.1% to RMB4,278 million in 2005 from RMB3,685 million in 2004. General, administrative and other expenses as a percentage of gross written premiums, policy fees and premium deposits increased to 7.3% in 2005 from 6.7% in 2004. These increases were primarily due to the increase in sales of first year premiums, policy fees and premium deposits.

Income Taxes

For the year ended December 31,	2005	2004
Effective tax rate	3.4%	11.0%

Income taxes decreased 62.8% to RMB124 million in 2005 from RMB333 million in 2004. The effective tax rate decreased to 3.4% in 2005 from 11.0% in 2004. These decreases were primarily due to the increase in interest income from government bonds, which was entitled to certain tax exemptions.

Net Profit

As a result of the foregoing, net profit for our life insurance business increased 31.3% to RMB3,551 million in 2005 from RMB2,704 million in 2004.

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PROPERTY AND CASUALTY INSURANCE BUSINESS

Results of Operations

The following is a summary of the results of our property and casualty insurance business:

For the year ended December 31, (in RMB million)	2005	2004
Gross written premiums	12,076	10,150
Net earned premiums	7,395	5,764
Investment income	398	240
Other income	1,188	1,172
Total revenue	8,981	7,176
Change in deferred policy acquisition costs	185	190
Claims expenses	(5,259)	(4,440)
Commission expenses	(820)	(678)
General, administrative and other expenses	(2,294)	(1,816)
Total expenses	(8,188)	(6,744)
Income taxes	(371)	(215)
Net profit	422	217

Combined Ratio

For the year ended December 31,	2005	2004
Expense ratio	23.3%	20.2%
Loss ratio	72.0%	77.0%
Combined ratio	95.3%	97.2%

Gross Written Premiums

For the year ended December 31, (in RMB million)	2005	2004
Automobile insurance	7,497	6,232
Non-automobile insurance	4,044	3,545
Accident and health insurance	535	373
Total gross written premiums	12,076	10,150

Gross written premiums increased 19.0% to RMB12,076 million in 2005 from RMB10,150 million in 2004. This increase in gross written premiums was primarily due to the significant growth in all three principal lines of our property and casualty insurance businesses.

Automobile Insurance Business. Gross written premiums attributable to our automobile insurance business increased 20.3% to RMB7,497 million in 2005 from RMB6,232 million in 2004. This increase was primarily due to the continued increase in demand for automobiles in the PRC and our improved distribution capability to sell these products.

Non-automobile Insurance Business. Gross written premiums attributable to our non-automobile insurance business increased 14.1% to RMB4,044 million in 2005 from RMB3,545 million in 2004. This increase was primarily due to the increase in sales of commercial property insurance and cargo insurance. Gross written premiums attributable to our commercial property insurance increased 15.1% to RMB1,682 million in 2005 from RMB1,461 million in 2004. Gross written premiums attributable to our cargo insurance increased 19.5% to RMB514 million in 2005 from RMB430 million in 2004.

Accident and Health Insurance Business. Gross written premiums attributable to our accident and health insurance business increased 43.4% to RMB535 million in 2005 from RMB373 million in 2004. This increase was primarily due to our continued focus on growing this line of business in 2005.

Investment Income

Net investment income for our property and casualty insurance business increased 34.0% to RMB390 million in 2005 from RMB291 million in 2004. This increase was primarily due to the increase in investment assets to RMB10,003 million as at December 31, 2005 from RMB7,577 million as at December 31, 2004. Net investment yield for our property and casualty insurance business remained at 4.3% in 2005.

Total investment income for our property and casualty insurance business increased 65.8% to RMB398 million in 2005 from RMB240 million in 2004. Our total investment yield for our property and casualty insurance business increased to 4.3% in 2005 from 3.6% in 2004.

For the year ended December 31, (in RMB million, except percentages)

	2005	2004
Net investment income	390	291
Net investment yield ⁽¹⁾	4.3%	4.3%
Total investment income	398	240
Total investment yield ⁽¹⁾	4.3%	3.6%

(1) Net investment yield and total investment yield are computed without considering exchange gains/(losses) associated with foreign currency denominated investment assets.

Change in Deferred Policy Acquisition Costs

The change in deferred policy acquisition costs was RMB185 million in 2005 as compared to RMB190 million in 2004. The smaller change in deferred policy acquisition costs was primarily due to the decrease in the percentage of acquisition cost that can be deferred in 2005 as compared to 2004.

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Claims

For the year ended December 31, (in RMB million)	2005	2004
Automobile insurance	3,972	3,199
Non-automobile insurance	1,057	1,095
Accident and health insurance	230	146
Total claims	5,259	4,440

Total claims increased 18.4% to RMB5,259 million in 2005 from RMB4,440 million in 2004.

Claims attributable to our automobile insurance business increased 24.2% to RMB3,972 million in 2005 from RMB3,199 million in 2004. This increase was primarily due to the increase in premium growth, and the additional claim reserves being provided for compulsory third party motor insurance coverage.

Claims attributable to our non-automobile insurance business decreased 3.5% to RMB1,057 million in 2005 from RMB1,095 million in 2004. This decrease was primarily due to the lower claims from our cargo and motor loan guarantees insurance business.

Claims attributable to our accident and health insurance business increased 57.5% to RMB230 million in 2005 from RMB146 million in 2004. This increase was primarily due to the increase in premium income.

Commission Expenses

For the year ended December 31,	2005	2004
Commission expenses as a percentage of gross written premiums	6.8%	6.7%

Commission expenses increased 20.9% to RMB820 million in 2005 from RMB678 million in 2004. As a percentage of gross written premiums, commission expenses increased to 6.8% in 2005 from 6.7% in 2004. These increases were primarily due to the higher market commission rates resulting from increased competition in the property and casualty insurance industry.

General, Administrative and Other Expenses

General, administrative and other expenses increased 26.3% to RMB2,294 million in 2005 from RMB1,816 million in 2004. This increase was primarily due to the increase in provisions for doubtful debts from some of the longer outstanding reinsurance recoverables.

Income Taxes

For the year ended December 31,	2005	2004
Effective tax rate	46.8%	49.8%

Income taxes increased 72.6% to RMB371 million in 2005 from RMB215 million in 2004. The effective tax rate decreased to 46.8% in 2005 from 49.8% in 2004. This decrease was primarily due to the increase in interest income from government bonds, which was entitled to certain tax exemptions.

Net Profit

As a result of the foregoing, net profit from our property and casualty insurance business increased significantly to RMB422 million in 2005 from RMB217 million in 2004.

TRUST BUSINESS

For the year ended December 31, (in RMB million)	2005	2004
Total revenue	198	102
Net profit	71	3

Total revenue from our trust business increased 94.1% to RMB198 million in 2005 from RMB102 million in 2004. Net profit from our trust business increased to RMB71 million in 2005 from RMB3 million in 2004. These increases were primarily due to the healthy growth of the asset under its custody.

SECURITIES BUSINESS

For the year ended December 31, (in RMB million)	2005	2004
Total revenue	235	288
Net profit	6	6

Total revenue from our securities business decreased 18.4% to RMB235 million in 2005 from RMB288 million in 2004. This decrease was primarily due to the decrease in revenue from our investment banking business as there were no new initial public offering issued in 2005. Net profit from our securities business remained at RMB6 million.

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BANK BUSINESS

For the year ended December 31, (in RMB million)	2005	2004
Total revenue	25	10
Net profit	7	3

Total revenue from our bank business increased to RMB25 million in 2005 from RMB10 million in 2004. Net profit from our bank business increased to RMB7 million in 2005 from RMB3 million in 2004.

OTHER BUSINESS

Our annuity business, health insurance business and asset management business were launched in 2005 but the scale of operation is still relatively small. The total revenue and net profit of these companies were considerably immaterial as compared to the entire Group.

LIQUIDITY AND FINANCIAL RESOURCES

Liquidity and financial resources are managed at the Group level on a consolidated basis. We are a holding company and, with the exception of investment management activities, do not conduct any significant business operations on our own. As a result, we depend upon dividends and distributions from our operating subsidiaries for substantially all of our operating cash flows.

In addition to cash and cash equivalents held by the Group, we have two additional sources of liquidity. They are liquid investments held for trading and short-term borrowings.

Liquid investments held for trading are listed or are traded in an active market and can be converted to cash easily without incurring significant charges.

The following table summarizes the carrying amount of liquid assets held by the Group:

As at December 31, (in RMB million)	2005	2004
Cash and cash equivalents	17,636	15,945
Held-for-trading investments	9,410	4,478
Total liquid assets	27,046	20,423

Short-term borrowings, represented by securities sold under agreements to repurchase, increased to RMB7,095 million in 2005 from RMB601 million in 2004. Short-term borrowings were used as part of the liquidity management for our daily operations. The Group has no other significant loan arrangements besides these short-term borrowings.

As at December 31, (in RMB million)	2005	2004
Short-term borrowings	7,095	601

The management believes that the liquid assets currently held, together with net cash generated from future operations, and the availability of short-term borrowings will enable the Group to meet its foreseeable cash requirements.

CAPITAL STRUCTURE

Total equity increased to RMB33,522 million as at December 31, 2005 from RMB28,627 million as at December 31, 2004. This increase was primarily due to our operating profit in 2005.

The Group does not utilize any form of debt arrangement to finance its capital structure.

The Group had no material charges on its group assets.

Gearing Ratio

As at December 31,	2005	2004
Gearing ratio	89.7%	89.3%

The gearing ratio is computed by dividing the sum of total liabilities and minority interests by total assets.

Solvency Margin

The solvency margin ratio is a measure of capital adequacy for insurance companies. It is calculated by dividing the actual solvency margin by the statutory minimum solvency margin requirement. Under the applicable CIRC regulations, PRC insurance companies are required to maintain specified solvency margin ratios. As a general matter, the CIRC considers an insurance company with a solvency margin ratio of 100% or higher to be financially sound.

The following table sets forth the solvency margin ratios for Ping An Life and Ping An Property & Casualty:

As at December 31, (in RMB million, except percentages)	Ping An Life		Ping An Property & Casualty	
	2005	2004	2005	2004
Actual solvency margin	15,177	11,335	2,113	1,754
Minimum solvency margin	10,787	9,206	1,377	1,105
Solvency margin ratio	140.7%	123.1%	153.4%	158.7%

Contractual obligations and Other Commercial Commitments

The following table sets forth our aggregate contractual obligations and other commercial commitments for the periods specified:

As at December 31, (in RMB million)	2005	2004
Contractual commitments	472	150
Operating lease commitments	850	799

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RISK MANAGEMENT

Approach to Risk Management

Ping An regards risk management as a core discipline in our business practice. We are dedicated to develop and maintain a risk management framework that governs the overall infrastructure of the group's operations.

Members of the Risk Management Committee include the Chief Operating Officer, the Chief Actuarial Officer, the Chief Investment Officer, the Chief Internal Auditor, the Finance Director, the Chief Legal Officer and the Chief Information Officer.

The committee meets on a quarterly basis to review the risk management progression. In these meetings, the risk management structure and major risk management issues are discussed on a macro level. Potential new corporate strategic objectives are evaluated for their risk exposures, major risk events for the past quarter are evaluated and development of new risk measurement techniques and risk control measures are presented and approved for implementation. Major operation risk weaknesses noted from our internal audit reviews and from external factors such as regulatory changes and accounting standards changes are also reviewed. Appropriate responses are formulated for the risk topics discussed. Lastly, the committee will review the appropriateness of measures implemented to address risk topics raised in prior meetings.

Insurance Product Risk

Insurance product risk is the risk of loss due to actual experience emerging differently than what was assumed when the product was designed and priced, as a result of investment returns, expenses, taxes, mortality and morbidity claims, and policyholder behavior.

The Group has an objective to control and minimize insurance risk, to reduce volatility of operating profits. The Group manages insurance risk through the following mechanism:

- The use and maintenance of management information systems that provide up to date, accurate and reliable data on risk exposure at any point in time.
- Actuarial models based on past experience and statistical techniques aid in pricing decisions and monitoring claims pattern.
- Guidelines are issued for concluding insurance contracts and assuming insurance risks.
- Proactive claims handling procedures are followed to investigate and adjust claims thereby preventing settlement of dubious or fraudulent claims.
- Reinsurance is used to limit the Group's exposure to large claims and catastrophes by placing risk with reinsurers providing high security.
- Diversification is accomplished by achieving sufficiently large population of risks to reduce the variability of the expected outcome. The diversification strategy seeks to ensure that underwritten risks are well diversified in terms of type and amount of risk, industry and geography.
- The mix of insurance assets is driven by the nature and term of insurance liabilities. The management of assets and liabilities is closely monitored to attempt to match the expected pattern of claim payments with the maturity dates of assets.

Asset and Liability Mismatching Risk

Asset and liability mismatching risk is the risk of loss due to the Group's inability to match its assets with its liabilities on the basis of both duration and investment return.

The Group's asset and liability management includes processes and models built to measure the sensitivity of net income and shareholders' equity under various deterministic interest rate scenarios. The scenarios and assumptions used are reviewed and updated periodically. Insights gained through the analysis are used to measure the risk exposures and capital position of the Group.

Under the current regulatory and market environment, the Group is unable to invest in assets with a duration of sufficient length to match the duration of its life insurance liabilities. When the regulatory and market environment permits, the Group intends to gradually lengthen the duration of its assets.

Market Risk

Market risk is the risk of potential loss that may result from changes in the value of a financial instrument as a result of changes in interest rates, market prices, foreign currency exchange rates and other market price-related factors. Under the current PRC regulatory and market environment, there is a lack of financial instruments available for the Group to hedge its market risk exposures efficiently. The Group controls its market risk exposures by setting a maximum risk exposure for each class of assets. When setting these limits, significant consideration is placed on the Group's risk appetite and impact on the Group's financial condition. These limits also take into account the Group's asset-liability management strategy.

The Group utilizes various techniques to quantify the market risk exposure, including sensitivity analysis and Value-at-Risk ("VaR") computation. VaR is a summary statistical measure that uses historical market prices and estimates the maximum loss over a target horizon such that there is a low, pre-specified probability that the actual loss will be larger. However, the utilization of the VaR technique under the current PRC market and regulatory environment has its limitations due to the lack of reliable historical financial data.

Market Risk – Interest Rate Risk

Fixed maturity securities held by the Group are exposed to interest rate risks. These investments are substantially represented by bond investments that are recorded at fair value in the balance sheet.

The Group uses sensitivity analysis to estimate its risk exposure. Interest rate sensitivity is estimated by assuming a 50 basis points parallel shift in the bond yield curve.

As at December 31, 2005 (in RMB million)

Interest rate risk

Bond investments held-for-trading and available-for-sale	1,266
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Market Risk – Market Price Risk

Listed equity investments held by the Group are exposed to market price risks. These investments are substantially represented by equity investment funds.

The Group uses the 10-day market price VaR technique to estimate its risk exposure. Market price VaR is computed as (equity investment funds valued at market price x 10-day worst market fluctuation at 99% level).

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As at December 31, 2005 (in RMB million)	Market price risk
Equity investments and equity investment funds held-for-trading and available-for-sale	956

Market Risk – Foreign Currency Risk

Foreign currency denominated investments and cash assets held by the Group are exposed to foreign currency risks. These assets include term deposits, cash and cash equivalents held in foreign currency that are considered as monetary assets. In addition to foreign currency denominated monetary assets, the Group's foreign currency denominated monetary liabilities are also exposed to fluctuations in exchange rates. These liabilities include foreign currency denominated claim reserves and payable to reinsurers. The exposures to fluctuations in exchange rates from monetary assets and monetary liabilities offset each other.

The Group uses sensitivity analysis to estimate its risk exposure. Foreign currency risk sensitivity is estimated by assuming a simultaneous and uniform 5% depreciation, against the Renminbi, of all foreign currency denominated monetary assets and monetary liabilities.

As at December 31, 2005 (in RMB million)	Foreign currency risk
Net exposure to fluctuations in exchange rates assuming a simultaneous and uniform 5% depreciation of all foreign currency denominated monetary assets and monetary liabilities against the Renminbi	771

Credit Risk

Credit risk is the risk of economic loss resulting from the failure of one of the Group's obligors to make any payment of principal or interest when due.

The Group is exposed to credit risks primarily associated with its term deposits arrangements with commercial banks and loans to third parties from its banking operations.

To evaluate credit risk property, the Group has established an internal credit rating system. The counterparties' ratings are reviewed at least annually through the system or whenever a credit event occurs.

The Group quantifies its credit risk exposure by assigning expected default rates and expected recovery rates of relevant credit grades for commercial banks and bond issuing companies. Credit risk is computed as (principal amount + outstanding interests) x default rate x (1 – recovery rate).

As at December 31, 2005 (in RMB million)	Credit risk
Term deposits placed with commercial banks and loans to external third parties	48

Operational Risk

Operational risk is the risk of loss resulting from internal operation failures or uncontrollable external events. Internal operation failures occur due to inadequate or failed internal processes (process risks), system failure (system risks), and human performance failure (people risks). Uncontrollable external events that contribute to operation risks are mainly due to legal matters or changes in the regulatory requirements, accounting standards and tax laws.

For internal operational risks, a proactive approach has been taken to implement appropriate and sufficient preventive controls, detective controls and damage limitation controls. These controls are embedded into the business processes, system operations and human performance. Rigorous checks on the reliability of the controls are performed by our internal and external audit functions. Our risk management committee and audit committee reviews the reports from our internal and external auditors to ensure that appropriate measures are taken to address control weaknesses detected. For the uncontrollable external events, our Legal Department, Finance Department and Planning and Actuarial Department monitor changes in regulatory requirements, accounting standards and tax laws closely.