

Supervision and Regulation of Insurance Business

Overview

The insurance industry is heavily regulated in the PRC. The CIRC and its local branches are the primary regulatory authority supervising the insurance industry. In addition, the insurance industry is also subject to the regulatory and management of the PBC, MOF, CBRC, CSRC, SAT, the National Audit Office, SAIC and SAFE. The applicable laws and regulations governing insurance activities undertaken within the territories of the PRC consist principally of the PRC Insurance Law and rules and regulatory documents promulgated by the CIRC thereunder.

Regulatory Authority — CIRC

The CIRC was established in 1998, and is responsible for overseeing and implementing reforms in the PRC insurance industry, minimizing solvency risk for insurers, broadening the types of investments for insurance companies and promoting the development of the PRC insurance market.

The CIRC has extensive supervisory authority over insurance companies operating in the PRC, including:

- promulgation of rules and regulatory documents applicable to the PRC insurance industry;
- examination of insurance companies;
- approving the policy terms and premium rates for certain insurance products;
- setting standards for measuring the financial soundness of insurance companies;
- requiring insurance companies to submit reports concerning their business operations and condition of assets; and
- ordering the suspension of all or part of an insurance company's business.

Framework of the PRC Insurance Law

Initial Formation of Regulatory Framework

The PRC Insurance Law was enacted in 1995, and provided the initial framework for the regulation of the PRC insurance industry. The key regulatory requirements of the then-current PRC Insurance Law include:

- licensing of insurance companies and insurance intermediaries applicable to their respective businesses. The PRC Insurance Law, among other things, established registration and qualification requirements for insurance companies, insurance agents and brokers and senior management;
- separation of life insurance and property and casualty insurance operations. The PRC Insurance Law classified the insurance business into two categories: (i) life, health and accident insurance businesses; and (ii) property loss, liability and credit insurance businesses;
- regulation of insurance products. According to the PRC Insurance Law, the basic insurance policy terms and premium rates of the principal commercial insurance products shall be formulated by the financial regulatory department. The insurance policy terms and premium rates of other insurance products proposed by insurance companies shall be reported to the financial regulatory department for filing;

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- financial condition and performance of insurance companies. The PRC Insurance Law established reserve and solvency requirements for insurance companies, imposed restrictions on the uses of insurance funds, established compulsory reinsurance requirements, and put in place a reporting system to facilitate monitoring by the insurance regulatory authority;
- legal liabilities. The PRC Insurance Law established relevant legal liabilities for frauds against the policy applicants, the insured parties or the beneficiaries; and
- supervisory and enforcement powers of the regulatory authority. The financial regulatory authority was given extensive powers under the PRC Insurance Law to regulate the insurance industry.

2002 Amendment to the PRC Insurance Law

On October 28, 2002, the PRC Insurance Law was amended, followed by a series of rules and regulatory documents promulgated by the CIRC, which reflected a gradual shift of the regulatory environment with the regulatory process becoming more transparent and in line with international practices. Significant changes include:

- an increase in the level of disclosures required to be made by insurance companies;
- greater freedom for insurance companies to develop insurance products;
- broader investment channels for insurance companies, including allowing insurers to use their funds to establish insurance-related enterprises;
- increased penalties for insurance market misconduct;
- gradual phasing out of compulsory reinsurance along with the PRC's accession into the WTO; and
- reduction of entry barriers to the PRC insurance industry, including allowing property and casualty insurers to provide accident and short-term health insurance products, and allowing more foreign insurers to enter into the PRC insurance industry.

2009 Amendment to the PRC Insurance Law

On February 28, 2009, the Standing Committee of the NPC promulgated the further amended PRC Insurance Law, effective on October 1, 2009. In response to the developments in the PRC insurance industry, significant amendments have been made to the PRC Insurance Law.

The amendments are mainly made to two aspects, namely, the insurance contracts and the insurance business.

The amendments with respect to the insurance contracts center around the protection of the lawful rights and interests of the policy applicants, the insured parties and the beneficiaries:

- restricting the right of insurers to terminate the insurance contracts and clarifying the period in which the insurers may exercise the right to terminate the contracts;

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- formalizing the contractual provisions by requiring the insurer to point out and provide a clear description of the duties relating to the exemption from liability provisions of insurance contracts, as well as invalidating contractual provisions that exempt the insurer from its legal obligations, increase the burden on the policy applicant or the insured, or deprive the policy applicants, the insured or the beneficiaries of their lawful rights.
- clarifying the insurers' procedures and settlement period of claims to facilitate the realization of the insured parties' right to claim insurance benefits.

The amendments with respect to the insurance business aim at improving the guidelines for insurance operations and strengthening insurance regulation:

- prescribing that insurance companies may engage in other insurance-related business as approved by the insurance regulatory authority under the State Council and expanding the business scope of the insurance companies;
- strengthening the regulation over insurance companies' governance, solvency and compliance;
- strengthening the regulation over the shareholders of insurance companies, requiring principal shareholders to have the capability of continuous profitability and not to harm the interests of the company through related party transactions (otherwise, the insurance regulatory authorities may restrict such shareholders' rights to the extent that the shareholders are ordered to transfer or dispose the equity interests they hold);
- broadening the investment channels for insurance funds, including bank deposits, bonds, stocks, shares of securities investment funds, real estate and other channels as permitted by the State Council; and
- clarifying the duties of the insurance regulatory authorities and strengthening regulatory means and measures.

Supervision and Regulation Under the Principal Law and Regulation

Authorization for Commencing Operation

Under the PRC Insurance Law, the Administrative Regulations for Insurance Companies and other relevant rules, a permit must be obtained from the CIRC before commencing operations in the insurance business. After reviewing the application and inspecting the applicant, the CIRC may grant the permit if an insurance company meets, among other things, the following conditions:

- shareholders of the insurance company must comply with requirements of the PRC laws, administrative regulations and relevant rules announced by the CIRC;
- the insurance company shall have articles of association in compliance with the PRC Insurance Law and the PRC Company Law;
- the minimum amount of registered capital of the insurance company shall be no less than RMB200 million, which must be paid-in monetary capital;
- the insurance company shall have directors, supervisors and senior management who have the professional qualifications required by the CIRC;
- the insurance company shall have a sound organizational structure and management system;

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- the insurance company shall have established sound structure and rules for, among others, business operation, accounting affairs, compliance, risk control, asset management, anti-money laundering;
- the insurance company shall have specific business development plans and formulate medium- and long-term asset allocation plans according to the asset-liability matching principle and other relevant principles;
- the insurance company shall have a lawful place of business, of which the safety and firefighting facilities meet the prescribed standards. Its place of business and office equipment shall meet the needs of its development plans. Its information systems shall meet the CIRC requirements; and
- the insurance company shall comply with the PRC laws, administrative regulations and other requirements set by the CIRC.

Paid-in Capital

Under the Administrative Regulations for Insurance Companies, the minimum registered capital as well as the paid-in monetary capital for the establishment of an insurance company is RMB200 million. Insurance companies formed with the minimum registered capital of RMB200 million are required to increase their registered capital by at least RMB20 million for each branch office they apply to open for the first time in each province, autonomous region or directly administered municipality other than their domicile. If the registered capital of the insurance company already reaches the amount of registered capital as required above at the time when it applies for setting up a branch office, it is not required to increase its registered capital accordingly. Insurance companies with a registered capital of at least RMB500 million may open branches without increasing their registered capital as long as they have adequate solvency imposed by the CIRC.

Scope of Business Activities

The PRC Insurance Law limits the scope of business activities of insurance companies. Life insurance companies may not engage in property and casualty insurance business in the PRC. Property and casualty insurance companies may not engage in life insurance business. However, with the approval from the CIRC, a property and casualty insurance company may engage in short-term health insurance and accident insurance businesses. With the approval from the CIRC, an insurance company may also engage in other insurance-related businesses. The specific scope of business of an insurance company and the geographic area that an insurance company may operate in must be approved by the CIRC or its designated organizations. Insurance companies may also engage in ceding reinsurance and assuming reinsurance, subject to the CIRC approval.

Under the Interim Administrative Regulations for Foreign Exchange of Insurance Business, an insurance company may engage in foreign exchange insurance business with the approval from the SAFE.

External Guarantee

Pursuant to the Notice on Relevant Matters Regarding Regulating External Guarantee by Insurance Institutions, issued by the CIRC on January 20, 2011, insurance companies and insurance asset management companies shall not provide any external guarantee (i.e., guarantees provided to third parties for others' obligations), exclusive of the following three actions conducted within the normal business operation and management activities of insurance companies: (i) guarantees on litigation; (ii) credit guarantees relating to export credit guarantees operated by export credit insurance companies; and (iii) maritime guarantees.

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Should an insurance institution provide external guarantees in accordance with the aforementioned provisions, it shall explain and disclose the information in its financial reports and shall make deductions accordingly pursuant to supervisory regulations when evaluating its solvency margin. All insurance institutions shall strictly prohibit external guarantees by their branches, and shall improve the internal control of their branches and strengthen seal management, eliminating the risk of external guarantees by branches without authorization. All insurance institutions shall also review their articles of association and relevant internal rules and modify the content involving external guarantees contained therein in accordance with the aforementioned requirements. Amendments to companies' articles of association shall be submitted to the CIRC for review and approval after being discussed and approved by shareholders' general meetings.

All insurance institutions shall perform a full check on the occurred external guarantees by headquarters and branches that are forbidden by the aforementioned Notice, and shall fill in the summary table as attached in the Notice truthfully and accurately based on the check results, which should be submitted to the CIRC prior to March 31, 2011. A zero-case report should also be submitted if there's no external guarantee forbidden by the Notice after such check. Any occurred external guarantees forbidden by the Notice should be canceled prior to June 30, 2011 in principle, with the handling result to be reported to the CIRC prior to July 31, 2011. Should there be any failure to cancel the forbidden external guarantees on time due to special reasons, the insurance institution should submit a written application for extension of cancellation to the CIRC with reasons explained.

Corporate Governance

In accordance with the PRC Company Law, the PRC Insurance Law, the Tentative Guidelines for Standardization of the Corporate Governance Structure of Insurance Companies, effective on January 5, 2006, Interim Measures for the Administration of Insurance Companies' Independent Directors, effective on April 6, 2007, the Opinions on Regulating the Articles of Association of Insurance Companies (關於規範保險公司章程的意見), effective on October 1, 2008, the Guidelines on the Operation of the Board of Directors of Insurance Companies (保險公司董事會運作指引), effective on October 1, 2008, and other relevant regulations, insurance companies are required to establish a corporate governance structure under which management and supervisory powers and responsibilities are divided among the shareholders, the board of directors, the board of supervisors and senior management.

The Tentative Guidelines for Standardization of the Corporate Governance Structure of Insurance Companies require an insurance company to establish an audit department, a risk management department and a compliance department. Insurance company is required to establish an internal system to regulate related party transactions and file these transactions with the CIRC. Material resolutions of the shareholders' general meetings and board meetings must be reported to the CIRC within 30 days after the passing of such resolutions. In addition, the board of an insurance company must submit its internal control evaluation report, risk assessment report and compliance report to the CIRC each year. Furthermore, the CIRC may conduct on-site inspection in respect of the corporate governance practices of insurance companies. The Opinions on Regulating the Articles of Association of Insurance Companies regulate the basic contents of the articles of association of an insurance company and specify the procedures for formulating and amending these articles. The CIRC also promulgated the Guidelines for the Operation of Board of Directors of Insurance Companies, which set forth more detailed guidelines on the appointment and removal of directors, director's qualifications and review of directors' performance. The Guidelines also require the articles of association of an insurance company to specify the composition of independent directors, non-executive directors and executive directors on its board.

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Pursuant to the Interim Measures for the Administration of Insurance Companies' Independent Directors, effective on April 6, 2007, an insurance company shall have at least two qualified independent directors on its board by June 30, 2007. For an insurance company with total assets of more than RMB5 billion as of the end of 2006, at least one third of its board of directors shall consist of independent directors by December 30, 2007. The number of independent directors of any other insurance company shall reach at least one third of the board of directors within one year after the company's total assets exceed RMB5 billion. Independent directors shall be elected and replaced at shareholders' general meetings. In addition to the duties required by the PRC Company Law and other applicable laws and regulations, an independent director has the duty to carefully review, among other things, material related party transactions, nomination, appointment and removal of directors and senior management of the headquarters, compensation of directors and senior management, profit distribution plans and material transactions that are not covered by the operational plans, as well as issues which may have a material effect on the insurance company, its minority shareholders or the insured.

Pursuant to relevant provisions under the Administration of Director, Supervisor and Senior Management Qualifications of Insurance Companies, effective as of April 1, 2010, the CIRC and its agencies have adopted a review and approval system with respect to the qualification of directors, supervisors and senior management of insurance companies. Pursuant to the Administration of Auditing of Director and Senior Management of Insurance Companies, effective on January 1, 2011, insurance companies shall engage external audit institutions to conduct audits of the chairmen, general managers and persons in charge of audits of the insurance companies. The audits of the chairmen and general managers of the insurance subsidiaries and insurance asset management companies under the insurance group companies may be organized and conducted by the audit departments of the insurance group companies. The audits of the other senior management staff may be organized and conducted by the internal audit departments of the insurance companies or external audit institutions.

The newly amended PRC Insurance Law, effective on October 1, 2009, requires an insurance company to establish rules on the management and information disclosure of related party transactions. The controlling shareholders, de facto controlling persons, directors, supervisors and senior management personnel of an insurance company are not allowed to impair the interests of the insurance company through related party transactions. Pursuant to the Interim Provisions on Related Transactions of Insurance Companies, effective on April 6, 2007, an insurance company is required to formulate policies on related party transactions and file such policies with the CIRC. An insurance company is also required to report to the CIRC material related party transactions within 15 working days of their occurrence. According to the Interim Provisions on Related Party Transactions of Insurance Companies, a material related party transaction of an insurance company is defined as a single transaction with a single related party involving an amount of more than RMB5 million and representing no less than 1% of the net assets of the insurance company as of the end of the preceding year, or a transaction with a single related party within a fiscal year involving an aggregate amount of more than RMB50 million and no less than 10% of the net assets of the insurance company as of the end of the preceding year.

Pursuant to the Risk Management Guidelines for Insurance Companies (Trial Implementation), effective on July 1, 2007, and the Guidelines for Life Insurance Companies' Implementation of Comprehensive Risk Management, effective on October 24, 2010, an insurance company shall establish a risk management structure that is under the direct leadership of the insurance company's senior management and falls under the ultimate responsibility of the board of directors. The risk management committee or, in the absence of a risk management committee, the audit committee under the board of directors is responsible for monitoring the effectiveness of the risk management system and matters concerning risk management shall be handled by the risk management department or a designated department.

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Pursuant to the Guidelines for the Implementation of Comprehensive Risk Management of Life Insurance Companies, effective on October 24, 2010, life insurance companies and health insurance companies shall establish a comprehensive risk management system covering all business departments, for which the board of directors shall be ultimately responsible. The company's senior management shall directly lead the efforts of such system with the risk management department as the base and all related departments closely cooperating with it. The risk management system of a company should set forth its risk management plan based on its development strategy, risk preference and risk tolerance. Coupled with risk assessment and quantitative analysis, the risk management system should aim to minimize risks such as market risk, credit risk and liquidity risk through asset-liability management. Life insurance companies and health insurance companies should establish a comprehensive risk pre-warning system in order to timely discover and mitigate potential risks in operations. They should also periodically analyze the design and performance of the company's comprehensive risk management system and establish and optimize an internal risk reporting and communication mechanism in order to ensure the execution and effectiveness of the comprehensive risk management system.

Pursuant to the Guidelines for the Compliance Management of Insurance Companies (保險公司合規管理指引), effective on January 1, 2008, and the Notice on Relevant Matters about Specific Application of the Guidelines for the Compliance Management of Insurance Companies (關於《保險公司合規管理指引》具體適用有關事宜的通知), effective on April 18, 2008, the board of directors, supervisors (the board of supervisors) and the president of an insurance company are charged with powers and duties concerning compliance management. In addition, an insurance company is required to have a compliance officer who shall not be in charge of the company's business department and finance department and shall report to the president and the board of directors, and to set up a compliance management department at the headquarters level. The Guidelines explicitly impose a variety of duties on the compliance officer and compliance department, including formulating and updating compliance policies and handbooks, monitoring, identifying, evaluating and reporting compliance risks, preparing compliance reports, offering compliance training and performing other compliance duties.

Pursuant to the Guidelines Regarding Internal Auditing of Insurance Companies (Trial Implementation), effective on July 1, 2007, an insurance company shall establish an independent internal audit system that fits its governance structure, management and control model, and the nature and scope of its businesses. The budgeting, management and performance review functions shall be independent within the internal audit system. There shall be an audit committee under the board of directors, an officer in charge of auditing matters and an independent, adequately staffed internal audit department. The internal audit department must conduct a comprehensive evaluation of the comprehensiveness, reasonableness and effectiveness of the company's internal control system each year and issue an internal control evaluation report.

Pursuant to the Principal Rules for the Internal Control of Insurance Companies, effective on January 1, 2011, an insurance company shall establish and implement an internal control system with internal control basis, internal control procedures and internal control assurance. Internal control includes sales control, operational control, funds utilization control and controls of other aspects. An insurance company shall establish an internal control system with defined responsibilities and undertakings, clear procedures and rules, coordinated internal cooperation and highly efficient execution. The board of directors shall take final responsibility, while senior management shall directly lead the system, with the internal control functional department organizing the overall planning and coordination, the internal audit department performing inspection and supervision and the business departments primarily responsible for the internal control. An insurance company shall also establish a review system for the internal control functions, conduct a comprehensive evaluation of the completeness, reasonableness and

effectiveness of its internal control system and issue an internal control evaluation report every year.

Terms and Premium Rates of Insurance

Pursuant to the Administrative Measures for the Examination and Approval and Record-keeping of Life Insurance Products, effective on July 1, 2004, and the PRC Insurance Law, the terms and premium rates of the following life insurance products must be submitted to the CIRC for review and approval:

- insurance products determined by the CIRC to be related to public interest;
- compulsory insurance products mandated by law; and
- newly developed life insurance products as prescribed by the CIRC.

Terms and premium rates for all other life insurance products must be filed with the CIRC within seven days after their initial sale.

If the filed products are under any of the following circumstances, the CIRC may require insurance companies to stop selling such products:

- which are in violation of laws, administrative regulations or other prohibitive provisions set forth by the CIRC;
- which are against the relevant national fiscal and finance policies;
- which are against public interest;
- which are unfair or create a price monopoly, which impairs the legal rights of the policy applicant, the insured or the beneficiary;
- in which the term stipulation, premium rates determination or pricing interest rates are not reasonable, which may endanger the solvency of such insurance company; or
- which are in violation of other circumstances as determined by the CIRC under the principle of prudent supervision.

Statutory Deposits

An insurance company is required by the PRC Insurance Law to deposit, as Statutory Deposits, 20% of its registered capital into banks designated by the CIRC. The Statutory Deposits may not be used for any purpose other than paying off debts during liquidation proceedings.

Reserves

Reserves comprise unearned premium reserve, outstanding claims reserve, life insurance reserve and long-term health insurance reserve. Unearned premium reserve refers to the reserve the insurer accrues for in-force short-term health insurance and accident insurance; outstanding claims reserve refers to the reserve the insurer accrues for a claim case concerning short-term health insurance and accident insurance in which an insured event had incurred but not settled; life insurance reserve refer to the reserve the insurer accrues for in-force life insurance reserve; and long-term health insurance reserve refers to the reserve the insurer accrues for in-force long-term health insurance reserve.

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Before the implementation of the Interpretation No. 2, the relevant CIRC regulations were the principle requirements for valuating the statutory reserves. Pursuant to the Regulation on Actuarial Practice for Life Insurance (人壽保險精算規定) issued by the CIRC on June 8, 1999, the Regulation on Actuarial Practice for Life Insurance New Type Products (人身保險新型產品精算規定) issued on May 16, 2003, the Circular on Issues Relating to the Modification of the Usage of Life Table in the Regulation on Actuarial Practice (關於修訂精算規定中生命表使用有關事項的通知) issued on December 19, 2005, Measures for the Administration of Health Insurance (健康保險管理辦法) issued on August 7, 2006, the Circular on Publishing the Regulation on Actuarial Practice for Unit-linked Insurance and Universal Life Insurance Products (關於印發投資連結保險萬能保險精算規定的通知) issued on March 26, 2007 and the Circular on Issues Relating to the Modification of Accident Insurance Statutory Reserve Appraisal (關於修訂短期意外傷害保險法定責任準備金評估有關事項的通知) issued by the CIRC on June 2, 2008, requirements concerning the statutory reserves are set out below:

- Life insurance reserve and long-term health insurance reserve: Statutory reserve shall be valuated with the “prospective method”. For products can not be valuated with the “prospective method,” the “retrospective method” could be used. Traditional and participating products except whole life annuity, shall be valuated with the Full Preliminary Term method and Zillmer method respectively; the modified net level premium reserve method is adopted by whole life annuity. As for unit-linked and universal life products, the statutory reserve comprises unit reserve and non-unit reserve, among which the unit reserve equals the account value of the policy at the valuation date; while the non-unit reserve is valuated with reference to discounted cash flow method under the generally accepted actuarial principles and the discount rate is based on the insurer’s expected yield rate but shall not be higher than 5%.
- Unearned premium reserve: As for the short-term health insurance business and the accident insurance business, insurance companies shall accrue for unearned premium reserve by adopting the 1/24 method or 1/365 method; more prudent and reasonable methods may also be used for certain special insurance products with reference to their risk distribution. The method for the accrual of unearned premium reserve shall not be changed once it is decided.
- Outstanding claims reserve: Life insurance policies shall accrue for reported but not settled claims reserve and incurred but not reported outstanding claims reserve and claim expense reserve. The requirements are implemented pursuant to the following: (i) insurance companies shall adopt a case by case method, the average loss method or other reasonable methods to accrue for claims reported but not settled by the insurance company; (ii) for cases with insured events incurred but not reported, insurance companies shall consider factors such as the risk nature, risk distribution, experience data and adopt at least two of the below methods for prudent assessment of the accrual: the chain ladder method, the average cost per claim method, the reserve progress method, the Bornhuetter-Ferguson method and other applicable methods; (iii) for expenses such as legal fees, litigation fees, loss implementation fees and remuneration for claim adjusters that may incur as a result of a claim case in which an insurance accident had incurred but not settled, the valuation of claims expenses reserve is based on the reasonably estimated amount of the claim expenses that are expected to incur in the future.

To be in line with IFRS, the MOF issued the Interpretation No. 2 and the Regulations on the Accounting Treatment Relating to Insurance Contracts (保險合同相關會計處理規定) on August 7, 2008 and December 22, 2009, respectively, which set the principles of accounting treatment with respect to reserves in the financial statement. We maintained insurance contract liabilities in accordance with the above regulations when preparing the statement in accordance with PRC GAAP. For the principles of accounting treatment with respect to reserves under IFRS, please see

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“Appendix I — Accountant’s Report.” With the implementation of the Interpretation No. 2, our treatment for reserves relating to embedded value and solvency margin follows the measures used for statutory reserves provided by the CIRC.

General (Risk) Reserve

Pursuant to the Financial Rules for Financial Enterprises (金融企業財務規則), effective on January 1, 2007, and related implementing guidelines, a financial enterprise engaged in the insurance business shall allocate 10% of its net profits each year as aggregate reserve to compensate for exposures to catastrophe risk. Net profits allocated as aggregate reserve may not be used for dividend distribution or capital increase purposes. For further information about the general (risk) reserve of our Company, see Note 22 of Section II to the Accountant’s Report set forth in Appendix I to this prospectus.

Insurance Security Fund

In accordance with the Measures for the Administration of Insurance Security Fund, which came into effect on September 11, 2008, as well as the Notice on Certain Matters Relating to Insurance Security Fund issued on December 19, 2008, starting from January 1, 2009, insurance companies shall pay the following into the insurance security fund with respect to insurance businesses within the scope of remedy of the insurance security fund:

- 0.8% of the premium income, from non-investment type property insurance, or 0.08% of the premium, from investment type property insurance with a guaranteed yield, or 0.05% of the premium from investment type property insurance without a guaranteed yield;
- 0.15% of the business revenue from life insurance with a guaranteed yield, or 0.05% of the premium from life insurance without a guaranteed yield;
- 0.8% of the premium income from short-term health insurance, or 0.15% of the premium income from long-term health insurance; and
- 0.8% of the premium income from non-investment type accident insurance, or 0.08% of the premium from investment type accident insurance with a guaranteed yield, or 0.05% of the premium from investment type accident insurance without a guaranteed yield.

An insurance company may suspend the payment of the insurance security fund if:

- its balance in the insurance security fund amounts to 6% or more of its total assets, in the case of property insurance companies; or
- its balance in the insurance security fund amounts to 1% or more of its total assets, in the case of life insurance companies.

To the extent the ratio of the insurance security fund balance of an insurance company to its total assets falls below the respective percentages set forth above, due to a decline in the insurance security fund balance or an increase in total assets, the insurance company’s obligation to pay into the insurance security fund shall resume automatically.

Solvency Margin

The PRC Insurance Law requires an insurance company to maintain a minimum solvency margin commensurate with the scale of its business operations and risk exposures.

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Pursuant to the PRC Insurance Law as amended in 2009, the insurance regulatory authority under the State Council shall impose strict rules on insurance companies with inadequate solvency and may take the following measures based on the specific situations: (i) order the insurance company to increase capital and arrange reinsurance; (ii) limit its business scope; (iii) limit its dividend payment to shareholders; (iv) restrict its purchase of fixed assets or the size of its operating expenses; (v) restrict the form and proportion of fund utilization; (vi) restrict its establishment of new branches; (vii) order the auction of non-performing assets and the transfer of the insurance business; (viii) limit the remuneration of its directors, supervisors and senior management; (ix) impose restrictions on its commercial advertising; or (x) order it to stop taking new business.

If an insurance company comes into a severe shortfall in solvency margin or an insurance company violates the provisions of the PRC Insurance Law, endangers the social and public interest which may or has seriously jeopardized the solvency of the company, the insurance regulatory authority under the State Council may take over the company.

If the solvency level of an insurance company is below the standard prescribed by the insurance regulatory authority under the State Council and the order of the insurance market will be seriously disrupted and the public interest will be endangered if the company is not liquidated, the insurance regulatory authority under the State Council will liquidate the company's operation, publish an announcement and organize a liquidation team in accordance with the law in a timely manner to conduct the liquidation.

If a shareholder of an insurance company seriously jeopardizes the interest and solvency of the company through related party transactions, the insurance regulatory authority under the State Council shall order the shareholder to make rectification. Before the required rectification is made, the insurance regulatory authority under the State Council may restrict the shareholder's right. If rectification is not made, the relevant shareholders may be ordered to transfer or dispose of the equity interest in the insurance company that they hold.

In addition, on July 10, 2008, the CIRC promulgated the Administrative Provisions on the Solvency Margin of Insurance Companies to assess the financial soundness of insurance companies and to provide policyholders with better protection under a proper regulatory system.

Under the Administrative Provisions on the Solvency Margin of Insurance Companies, an insurance company is required to have sufficient capital commensurate with its risk exposures and scale of business, and its solvency margin ratio shall not be less than 100%. The solvency margin ratio, i.e., the capital adequacy ratio, means the ratio of an insurer's actual capital to its minimum capital. Minimum capital is defined as the amount of capital that an insurance company must maintain to respond to the adverse impact of asset risks and underwriting risks on its solvency margin, while actual capital refers to the difference between the admitted assets and the admitted liabilities of an insurance company. The CIRC requires insurance companies to assess their solvency margin ratio, to calculate their minimum capital and actual capital and to conduct dynamic solvency tests on a regular basis.

Furthermore, the CIRC also requires insurance companies to forecast and evaluate the trends of their solvency under various potential scenarios. In cases of occurrence of events that will have significant impact on an insurance company's solvency margin, such as substantial investment losses, significant claims payments and policy cancellations, material litigations, financial crisis or conservatorship by financial regulators of the insurance company's subsidiary, its joint venture or its parent company, or the headquarters of a foreign insurance company with a branch office located in the PRC suffering an administrative penalties or supervisory measure or applying for bankruptcy protection due to solvency problems, a freeze of major assets by a judicial body or other material administrative penalties by other administrative authorities, the insurance

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company is required to report to the CIRC within five working days of the occurrence of such event. In order to comply with relevant solvency assessment requirements, an insurance company is required to prepare and file various solvency reports, which include annual, quarterly and interim reports. In particular, an insurance company must submit a report to the CIRC within five working days after discovery of its insolvency.

Based on their solvency margins, the CIRC classifies insurance companies into three categories:

- Inadequate Solvency: insurance companies with solvency margin ratio of less than 100%;
- Adequate Solvency Level I: insurance companies with solvency margin ratio of between 100% and 150%; and
- Adequate Solvency Level II: insurance companies with solvency margin ratio of higher than 150%.

For an insurance company in the category of Inadequate Solvency, the CIRC may take one or more of the following supervisory measures: (i) order the insurance company to increase its capital or restrict its distribution of dividends; (ii) limit the compensation and in-service expenditure of its directors and senior management; (iii) impose restrictions on its commercial advertising; (iv) restrict its establishment of new branches, limit its business scope, or order it to cease starting new business and to transfer or cede its business; (v) order an auction of the insurance company's assets or restrict it from purchasing fixed assets; (vi) restrict the usage of its insurance funds; (vii) change the person in charge and relevant management personnel; (viii) take over the management of the insurance company; and (ix) enact other supervisory measures as deemed necessary by the CIRC.

According to the Administrative Provisions on the Solvency of Insurance Companies, for insurance companies with a solvency margin ratio of no more than 150%, profit distribution shall be made on the basis of distributable profits as determined under the Accounting Standards for Business Enterprises, or retained comprehensive income as determined under the Rules on the Preparation of Insurance Company Solvency Reports, whichever is lower; for insurance companies with a solvency margin ratio of less than 100%, the CIRC may prohibit such companies from distributing dividends to their shareholders. The CIRC may require an insurance company in the category of Adequate Solvency Level I to submit and implement a solvency improvement plan. When there is a significant insolvency risk in an insurance company in the category of Adequate Solvency Level I or Adequate Solvency Level II, the CIRC may order it to make a rectification or take other necessary supervisory measures against it.

Use of Insurance Funds

Since 2003, the CIRC has gradually loosened regulatory restrictions, allowing insurance companies to gradually diversify their investments. The CIRC promulgated the Interim Provisions Regarding Investments by Insurance Companies in Securities Investment Funds in 2003 and the Interim Measures for the Administrative of Stock Investments of Insurance Institutional Investors in 2004, pursuant to which qualified insurance companies and insurance asset management companies are permitted to invest in stocks and securities investment funds. The CIRC promulgated the Administrative Measures on Pilot Indirect Investments in Infrastructure Projects by Insurance Funds in 2006 and jointly promulgated the Measures for the Overseas Investment with Insurance Funds with several ministries and commissions in 2007. The PRC Insurance Law amended in February 2009 and effective in October 2009 permits insurance companies to invest in real estate for the first time. Subsequently, the Notice of China Insurance Regulatory Commission on Adjusting the Investment Policies for Insurance Funds, effective on July 31, 2010,

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the Interim Measures for the Administration of Utilization of Insurance Funds, effective on August 31, 2010, the Interim Measures for Equity Investments with Insurance Funds, effective on September 1, 2010 and the Interim Measures for the Investment of Insurance Funds in Real Estate effective on September 1, 2010 make further stipulation of the form of use of insurance funds. According to the relevant laws and regulations currently in force, insurance funds can be used for fixed-income investments, funds and equity investments and other investments, the specific details of which are as follows:

Fixed-income Investments

- bank deposits;
- government bonds;
- financial bonds (including central bank bills, policy bank financial bonds, policy bank subordinated bonds, commercial bank financial bonds, commercial bank subordinated bonds, commercial bank subordinated debts, insurance company subordinated term debts and RMB-denominated bonds issued by international development institutions);
- enterprise (corporate) bonds;
- convertible bonds;
- short-term financing bonds; and
- other bonds as approved by relevant government agencies.

Funds and Equity Investments

- securities investment funds;
- RMB-denominated common shares listed on PRC stock exchanges; and
- equity interest of unlisted companies.

Other Investments

- infrastructure debt investment plans;
- real estate;
- overseas investments; and
- other forms of use of capital as stipulated by the State Council.

Fixed-Income Investments

Pursuant to Article 2 of the Notice on Adjusting the Investment Policies for Insurance Funds, effective on July 31, 2010, an insurance company shall allocate fixed-income assets in light of its liability situations, provided that it must conform to the following provisions:

- (1) The types of secured bonds that an insurance company may invest in now include secured enterprise bonds, secured corporate bonds, secured convertible corporate bonds and secured corporate bonds which are publicly offered by securities companies. The credit rating of the secured enterprise (corporate) bonds that an insurance company may

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invest in shall now include those which have a long-term credit rating equivalent to A or above from any domestic credit rating agency. Insurance companies shall have the discretion to decide the amount of investment in the financial bonds, subordinated bonds, and subordinated term debts of commercial banks, Renminbi bonds of international development institutions and secured enterprise (corporate) bonds. The amount of investment in the same issue of a single type of bonds shall not exceed 20% of the total amount of the single type of bonds of this issue. The investment in the subordinated term debts of insurance companies shall comply with relevant regulations currently in force.

- (2) The types of unsecured bonds that an insurance company may invest in now include unsecured enterprise bonds, debt financing instruments of non-financial enterprises and unsecured convertible corporate bonds issued by commercial banks. Investments in unsecured enterprise (corporate) bonds issued within China shall now have a long-term credit rating equivalent to AA or above from any domestic credit rating agency. The amount of an insurance company's investment in unsecured enterprise (corporate) bonds shall not exceed 20% of the company's total assets at the end of the last quarter. The amount of investment in the same issue of a single type of bonds shall not exceed 10% of the total amount of the single type of bonds of this issue.
- (3) An insurance company shall also conform to the following provisions when investing in any types of bonds listed in provisions (1) and (2) aforementioned: the amount of investment in bonds issued by the same issuer shall not exceed 20% of the issuer's net assets at the end of the last accounting year; the amount of investment in bonds issued by any related enterprise (corporate) shall not exceed 20% of the insurance company's net assets at the end of the last accounting year; and the amount of investment in the same issue of a single type of bonds by the insurance companies in the same insurance corporate group shall not exceed 60% of the total issued amount of this single type of bonds.
- (4) The custodian bank of an investment in convertible corporate bonds or secured bonds of securities companies shall be a clearing participant. The external credit rating of bonds issued by the same issuer which simultaneously has ratings given by two or more external credit rating agencies within China shall refer to the lower of the two ratings. If bonds issued by the same issuer simultaneously have a domestic credit rating and an international credit rating, the domestic credit rating shall prevail. The term "simultaneously" as mentioned under this paragraph refers to the credit ratings assigned to the issuer within the same accounting period.

Under the Notice on Increasing the Varieties of Bond Investment for Insurance Institutions, PRC insurance companies are now allowed to invest in local government bonds issued and honored by the Ministry of Finance on behalf of local governments, medium-term notes and other debt financing instruments issued in the domestic market by non-financial enterprises, and bonds, convertible debentures and other types of unsecured bonds with required ratings issued in the Hong Kong market by large state-owned enterprises. An insurance company may freely determine the percentage of its total investment and each single investment in local government bonds. However, the amount of its aggregate investments in the unsecured bonds shall not exceed 15% of the insurance company's total assets at the end of the preceding quarter. An insurance company with a solvency margin ratio below 150% for one quarter is not allowed to invest in unsecured bonds. An insurance company with a solvency margin ratio below 150% for two consecutive quarters is not allowed to increase its investment in unsecured bonds.

Under the Notice on Matters Relating to Investments in Bonds, issued by the CIRC on September 22, 2009, PRC insurance companies are currently permitted to invest up to 40% of

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their total assets as of the end of the prior quarter in enterprise (corporate) bonds. PRC insurance companies may invest in bonds and convertible bonds issued in the Hong Kong market by large state-owned enterprises and companies listed on the main board of the Hong Kong Stock Exchange, provided that such bonds and convertible bonds have a long-term credit rating of the equivalent of BBB or above assigned by an internationally recognized credit rating agency.

Funds and Equity Investments

Securities Investment Funds

Under the Provisions regarding Investments by Insurance Companies in Securities Investment Funds, and Notice on Adjusting the Investment Policies for Insurance Funds, insurance companies, subject to the satisfaction of certain conditions, may apply to engage in the securities investment fund business. An insurance company has the discretion to invest in stocks or equity funds which represent less than 20% of its total assets at the end of the prior quarter, provided that it conforms to the following provisions:

- the amount of investment in securities investment funds may not exceed 15% of its total assets at the end of the prior quarter, and the total amount of investment in securities investment funds and stocks shall not exceed 25% of its total assets at the end of the prior quarter;
- the amount of investment in a single securities investment fund may not exceed 3% of its total assets at the end of the prior quarter; for an investment in a single closed-end fund, the unit shall not exceed 10% of the total number of issued units of the fund; and
- the securities investment fund business of an insurance company must be operated solely by the headquarters of such insurance company, and branches of such insurance company shall not engage in the trading of equity investment fund.

Under the Interim Measures for the Administration of Utilization of Insurance Funds, where the insurance funds are invested in securities investment funds, the fund manager shall meet the following conditions:

- it has good corporate governance, and its net assets remain at RMB100 million or more for three consecutive years;
- its performance of the contracts is in compliance of laws and protects the legal rights and interests of its investors and has no record of violation of laws and regulations within the past three years;
- it has established an effective firewall mechanism between the securities investment funds and the asset management business for specific clients; and
- it has a stable investment team, good track record of investment performance, and relatively stable size of assets or units of funds under its management.

RMB-Denominated Common Shares Listed on PRC Stock Exchanges

Pursuant to the Notice on Regulating Stock Investment Business of Insurance Institutions, promulgated by the CIRC on March 18, 2009, an insurance company shall decide whether to engage in stock investments directly or through the entrusted management according to the Standards for Stock Investments Management Capabilities of Insurance Companies (保險公司股票投資管理能力標準) and market-oriented principles, and file with the CIRC.

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Pursuant to Article 1 of Notice on Regulating the Stock Investment Business of Insurance Institutions, an insurance company shall, depending on the characteristics of its insurance funds and its solvency margin, allocate its foreign and domestic stock assets on a uniform basis and reasonably determine the scale and proportion of its stock investments. For insurance companies with solvency margin ratio of 150% or above, stock investments can be conducted normally according to the relevant regulations. However, an insurance company with solvency margin ratio of between 100% and 150% for four consecutive quarters may need to adjust its stock investment strategy, and if the solvency margin ratio of an insurance company falls below 100% for two consecutive quarters, the amount of stock investments cannot be increased and the insurance company shall report its market risk timely and take effective and preventive measures in dealing with such risk.

According to the Interim Measures for the Administration of Stock Investments of Insurance Institutional Investors, effective on October 24, 2004, an investor of an insurance institution may not hold 30% or more of RMB-denominated common shares of a listed company.

Under the Circular on Stock Investments by Insurance Institutional Investors promulgated by the CIRC on February 7, 2005, insurance companies' investments in stocks are subject to the following restrictions:

- for traditional insurance products, the amount of stock investments, on a cost basis, may not exceed 5% of the company's total assets (net of assets in relation to unit-linked insurance products and universal life insurance products) at the end of the prior year; the proportion of assets, on a cost basis, of unit-linked insurance products invested in stocks may not exceed 100% of the total unit-linked insurance products assets; for universal life insurance products, the proportion of assets, on a cost basis, invested in stocks may not exceed 80%;
- an insurance company's investments in listed companies with a public float of less than RMB100 million, on a cost basis, may not exceed 20% of such insurance company's assets eligible for stock investments, including unit-linked products and universal life insurance products;
- an insurance company's investments in the tradable shares of a single listed company, on a cost basis, may not exceed 5% of such insurance company's assets eligible for stock investments;
- an insurance company's investments in the tradable shares of a single listed company may not exceed 10% of such listed company's tradable shares and 5% of such listed company's share capital; and
- an insurance company should include its holding of bonds that are convertible into listed company shares in such insurance company's stock investment account for purposes of calculating the proportions of its stock investments.

Pursuant to Article III of the Notice on Adjusting the Investment Policies for Insurance Funds, an insurance company has the discretion to, according to its equity investment plan, invest in stocks or equity funds within 20% of its total assets at the end of the prior quarter. The amount of investment in the stock of a same listed company may not exceed 10% of the listed company's total equity. Where it exceeds 10%, it is limited to a material investment made for the purpose of obtaining control over the listed company, to which the material equity investment provisions of the Interim Measures for the Administration of Utilization of Insurance Funds shall apply.

Investment in Equity of Unlisted Companies

Pursuant to the Circular on the Investment in the Equity Interests of Commercial Banks by Insurance Institutions, promulgated by the CIRC on September 21, 2006, insurance institutions in the PRC may engage in equity investments in qualified unlisted commercial banks, such as state-owned commercial banks, joint-stock commercial banks and city commercial banks, within the PRC, subject to the following conditions:

- an insurance institution's combined balance of "ordinary investments," defined as investments with a total value less than 5% of the share capital or the paid-in capital of the target bank, and "material investments," defined as investments with a total value exceeding 5% of the share capital or the paid-in capital of the target bank, shall not exceed 3% of such insurance institution's total assets as of the end of the prior year;
- the balance of ordinary investments by a single insurance institution in a single bank shall not exceed 1% of such insurance institution's total assets as of the end of the prior year;
- the balance of material investments by a single insurance institution shall be submitted to the CIRC for approval and the capital used for material investments shall not exceed 40% of the insurance institution's paid-in capital as of the end of the prior year minus accumulated losses;
- the insurance institutions must meet certain qualifications in terms of their corporate governance, risk management and business operations to be able to make ordinary investments, and must meet higher qualification standards, both quantitative and qualitative, to be able to make material investments;
- ordinary investments shall be filed with the CIRC in advance and material investments must be approved by the CIRC; and
- generally, an insurance institution cannot make material investments in more than two commercial banks.

In addition, according to the Interim Measures for Equity Investments with Insurance Funds issued by the CIRC on September 1, 2010, insurance companies can invest, directly or indirectly, in equities of legally established domestic unlisted joint stock or limited liability companies. Investment with insurance funds in equities shall be limited to equities of insurance companies, non-insurance financial companies and companies for senior care, health care and automobile services in relation to insurance business.

Other Investments

Infrastructure debt Investment plans

Under the Administrative Measures on Pilot Indirect Investments in Infrastructure Projects by Insurance Funds promulgated on March 14, 2006 (the "Pilot Measures"), an insurance company may invest in a qualified infrastructure project through a trustee.

The Pilot Measures set forth the provisions governing the administration of investments in infrastructure made by a trustee appointed by a principal who is a holder of an insurance fund, at the direction of the principal, for the benefits of the beneficiaries or for any other specified purposes. Pursuant to Article 13 of the Pilot Measures, no investment shall be made in any infrastructure project involving any of the following circumstances:

- is prohibited or restricted explicitly by the PRC government;

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- requires legal and valid permits which haven't been granted;
- involves legal risks due to uncertain identity or ownership;
- the developer does not have legal person status; and
- involves other circumstances specified by the CIRC.

On March 19, 2009, the CIRC issued the Notice on Investing the Insurance Funds in the Infrastructure Debt Investment Plans, which provides that insurance companies with solvency margin ratio of above 120% for the most recent two years and other qualifications specified therein may invest in infrastructure debt project plans initiated by insurance asset management companies, trust companies and other professional management institutions. An insurance company shall, on the basis of its investment management capacity and risk management capacity, independently decide the manners of its investment in the debt investment plans, and make appropriate filings with the CIRC.

Insurance companies with investments in infrastructure debt investment plans shall comply with the following requirements:

- the amount of investment in a infrastructure debt investment plan by a life insurance company shall not exceed 6% of its total assets at the end of the preceding quarter; in the case of a property insurance company, the amount of such investment shall not exceed 4% of its total assets at the end of the prior quarter;
- the amount of investment in a single infrastructure debt investment plan shall not exceed 40% of the assets allocated to be invested in debt investment plans;
- the proportion of investment in a single infrastructure debt investment plan in the form of Category A or B shall not exceed 50% of the issued amount under such investment plan; and the proportion of investment in a single debt investment plan in the form of Category C shall not exceed 40% of the issued amount under such investment plan; and
- the aggregate proportion of investments made by insurance companies from the same insurance corporate group in a single infrastructure debt investment plan issued by an affiliated professional management institution shall not exceed 60% of the total issued amount under such investment plan.

Under Article 5 of the Notice, in the case of State Council approving a major project, the proportion of investment in a single debt investment plan may be adjusted properly.

Insurance funds investments in the equity of an infrastructure company shall comply with the Interim Measures for Equity Investment with Insurance Funds.

Real estate

Pursuant to the Interim Measures for the Investment of Insurance Funds in Real Estate issued by the CIRC on September 1, 2010, insurance funds can be invested in real estate of infrastructure or non-infrastructure in nature and real estate-related financial products in compliance with relevant laws and regulations. Real estate in which insurance funds are used to invest should be clear in ownership rights and free of title disputes, with the presence of legally valid title certificates. Insurance companies making real estate investment are required to maintain a solvency margin ratio of at least 150% at the end of the previous fiscal year and a solvency margin ratio of at least 150% at the end of the quarter immediately preceding the investment. Investment with insurance funds in real estate in forms of debt, equity or other property interests

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shall be limited to commercial properties, office properties, properties for senior care, health care and automobile services in relation to insurance business, and properties for self-use.

Investments in real estate (excluding self-use properties) by insurance companies should comply with the following requirements:

- The book value of investments in real estate shall not exceed 10% of the total assets of the company as of the end of prior quarter. The book value of investments in real estate-related financial products shall not exceed 3% of the total assets of the company as of the end of prior quarter. The total book value of investments in real estate and real estate-related financial products shall not exceed 10% of the total assets of the company as of the end of prior quarter.
- The book value of investments relating to any single real estate investment project shall not exceed 50% of the offering size of such project. Investments in any real estate-related financial product shall not exceed 20% of the total offering size of such product.

Insurance companies which make investments in real estate shall not engage in the following activities:

- offering unsecured debt financings;
- providing pledge or guarantee with their invested properties;
- investing in the development of or selling commercial residential properties;
- directly engaging in real estate development (including primary development);
- investing in the establishment of real estate development enterprises or in equities of unlisted real estate enterprises (excluding project companies), or controlling real estate enterprises by purchasing their shares (insurance companies which have invested in the establishment of or controlled any real estate enterprise shall exit or transfer to other parties within a certain period);
- investing in real estate with funds raised by borrowing, issuing debt, repurchasing and lending, unless debt issuance is otherwise regulated by the CIRC;
- violating the requirements with respect to investment proportion stipulated in the Interim Measures for the Real Estate Investments with Insurance Funds;
- other activities prohibited by laws and regulations and the CIRC.

Overseas Investment

Pursuant to the Measures for the Overseas Investment with Insurance Funds, jointly promulgated by the CIRC, the PBC and the SAFE on July 26, 2007, and the Notice on the Relevant Issues Concerning the Adjustment of the Investment Policies for Insurance Funds promulgated by the CIRC on July 31, 2010, insurance companies may invest in bonds and securities investment funds issued publicly and stocks issued publicly and listed in overseas capital markets. Requirements on the investment by insurance companies in overseas markets, financial products and the management of such investment are set out separately. The balance of the overseas investment of an insurance company shall not exceed 15% of the insurance company's total assets at the end of the preceding quarter, and the ratio of a single investment is the same as those for similar products in the PRC.

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An insurance company may determine the proportion of its investments in offshore assets in accordance with its needs in asset allocation and risk management as long as it is within the specified proportion approved by the CIRC and provided that the following conditions are met:

- the aggregate amount invested in overseas assets may not exceed 15% of the insurance company's total assets as of the end of the prior quarter;
- the aggregate amount invested may not exceed the foreign currency investment quota approved by the SAFE;
- an insurance company must comply with relevant CIRC regulations regarding the size of the investment in any single entity;
- changes to specific investment proportion, form or asset type previously approved are subject to application with, and approval by, the CIRC; and
- material equity investments must be approved by the CIRC.

Under the Guidelines for the Risk Control in the Operation of Insurance Funds (for Trial Implementation), a CIRC regulation that became effective on June 1, 2004, insurance companies and insurance asset management companies are required to establish comprehensive and effective risk control systems with respect to the use of insurance funds. In particular, such risk control system shall cover, among others, asset-liability management, investment decision management, investment transaction management, risk technology system management, information technology system management, financial accounting management and human resource management. In addition, insurance companies are required to conduct, at least annually, a comprehensive and systematic internal review of the use of insurance funds. The result of such review shall be reported to the board of directors.

Areas Prohibited for Use of Funds of an Insurance Company

The PRC Insurance Law and CIRC regulations have strict limitations on the use of funds by PRC insurance companies. In particular, the PRC Insurance Law and CIRC regulations prohibit PRC insurance companies from, among other things, using insurance funds to engage in other activities that are outside of the scope permitted and regulated by the CIRC.

Pursuant to the Interim Measures for the Administration of the Utilization of Insurance Funds which became effective on August 31, 2010, insurance group (holding) companies and insurance companies shall not use insurance funds in any of the following manners:

- (1) depositing the insurance funds in non-bank financial institutions;
- (2) purchasing shares categorized by a stock exchange as "Special Treatment" and "Special Treatment with Warning of Risk of Delisting";
- (3) investing in the equities of enterprises or real estate that do not have stable cash flow return prospects or potential asset appreciation value, or that involve in projects which conflict with the State's industrial policy (for example, projects that produce heavy pollution);
- (4) directly engaging in real estate development or construction;
- (5) engaging in venture capital investment;

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- (6) using investment assets derived from the utilization of insurance funds to provide guarantees for, or extend loans to, others, with the exception of loans secured by policies of individuals; or
- (7) engaging in other investment acts prohibited by the CIRC.

The CIRC may adjust the prohibitive requirements on the use of insurance funds where appropriate based on the relevant circumstances.

Insurance Agents

Insurance agents include individual insurance agents, dedicated agency organizations and ancillary agency organizations. Insurers may not employ institutional or individual insurance agents who are not certified by the CIRC.

Pursuant to the relevant requirements of the PRC Insurance Law, whenever an agent's services are engaged by an insurance company, the insurance company must enter into an agency agreement, which must stipulate the rights and obligations of the respective parties as well as other matters pertaining to the agency relationship in accordance with the law.

According to the relevant requirements of the PRC Insurance Law, the insurer must be responsible for the actions of an insurance agent in carrying out insurance business activities pursuant to terms of the agency agreement. The insurer shall bear insurance liability for actions of its agent even if the agent has acted in the name of the insurer without engagement, beyond its scope of engagement or after the termination of engagement, provided that the policy applicant has reasons to believe that the agent is acting within its scope of engagement. However, the insurer may bring a compensation claim against an agent that has acted in the name of the insurer without engagement, beyond the scope of its engagement or after the termination of engagement.

Individual Insurance Agents

Under the Provisions on the Administration of Individual Insurance Agents, effective on July 1, 2006, in order to engage in insurance agency services, an individual applicant must have an Insurance Professional Qualification Certificate for engaging in insurance agency business, an executed insurance agency agreement with an insurer and an operating certificate issued by such insurer.

An individual insurance agent shall engage in insurance sales activities within the scope authorized by the insurer to which he or she belongs, shall, on his or her own initiative, agree to be managed by the insurer to which he or she belongs, and shall perform the obligations as stipulated in the insurance agency agreement. An individual insurance agent performing life insurance business activities may not be concurrently engaged by more than one insurer.

According to the PRC Insurance Law, as amended in 2009, individual insurance agents shall meet the qualifications required by the insurance regulatory authority under the State Council, obtain the qualification certificates issued by the insurance regulatory authority and sign the agreements for the appointment of agent with the insurance companies. No individual insurance agent may accept the appointment from two or more insurers at the same time when engaging in life insurance business on behalf of any insurer.

Dedicated Agency Organizations

A dedicated agency organization must possess the qualifications stipulated by the CIRC, obtain a Permit for Insurance Agency Business from the CIRC, register with and obtain a business

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license from the relevant local bureau of the SAIC, and either deposit a guarantee fund or obtain professional liability insurance coverage. A dedicated agency organization may sell insurance products, collect insurance premiums, perform damage investigations and process claims on behalf of the insurer and engage in other businesses as stipulated by the CIRC.

In accordance with the PRC Insurance Law and the Provisions on the Supervision and Administration of Specialized Insurance Agencies, effective as of October 1, 2009, the establishment of a full-time insurance agent institution must meet the following requirements:

- its shareholders or promoters must have good credit standing and have no record of material violation of law within the past three years;
- its registered capital satisfies the minimum required amount and must be paid-in monetary capital;
- its articles of association must comply with applicable laws;
- its chairman, executive directors and senior management personnel satisfy the required qualifications for serving in the relevant positions;
- it has a sound organizational structure and management system;
- it has a regular domicile that is suitable for its business;
- it has business and financial electronic hardware and software suitable for its business operations; and
- it meets other qualifications specified by the laws, administrative regulations and the CIRC.

Ancillary Agency Organizations

Ancillary agency organizations must have their qualifications approved by the CIRC and must obtain the Permit for the Ancillary Agency Organizations Business. Upon the establishment of an agency relationship, an insurer shall confirm that the ancillary agency organization is in possession of a Permit for Ancillary Agency Organizations Business. An insurer may not engage an ancillary agency organization to issue insurance policies without the approval of the CIRC.

Bancassurance

Commercial banks in the PRC are not permitted to underwrite insurance policies. However, they are allowed to act as agents to sell insurance products through their distribution networks. Commercial banks providing insurance agency services are required to comply with all applicable regulations issued by the CIRC and the CBRC.

According to the Notice on Strengthening Structural Adjustments to the Bancassurance Business for Life Insurance to Promote Healthy Development of Bancassurance (關於加強銀行代理壽險業務結構調整促進銀行代理壽險業務健康發展的通知) issued by the CIRC and the CBRC jointly on January 13, 2010, the Notice on Further Strengthening Compliant Sales and Risk Management of Commercial Bank's Bancassurance Business issued by the CBRC on November 1, 2010, and the Regulatory Guidelines for Bancassurance Business of Commercial Banks issued by the CIRC and the CBRC jointly on March 7, 2011, insurance companies and commercial banks that operate the bancassurance business shall comply with the provisions of relevant laws, administrative regulations and rules, and shall comprehensively and stringently execute the corresponding risk management rules and internal control operating process. Each bank outlet

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can only engage in the bancassurance business after it has obtained the relevant permits issued by the CIRC and authorization from the tier-one branches of the bank. The bank staff selling insurance products and bancassurance staff of insurance companies (who are only in charge of training and after-sale services) shall each obtain an Insurance Professional Qualification Certificate. Banks shall not allow any staff of insurance companies to be stationed in bank outlets. In order to maintain the stability of the relationships between insurance companies and banks, the cooperation agreement between the two parties shall be signed by the respective head offices (or by respective tier-one branches authorized by respective head offices), and the cooperation between each bank outlet and each insurance company shall last for at least one year under normal circumstances, and in principle, each bank outlet shall only cooperate with no more than three insurance companies (if more than three, the bank shall operate the bancassurance business with prudence, and shall report to the local branch office of the CBRC).

Furthermore, the bank staff shall only sell the insurance products that have been approved by or filed with the CIRC, and shall only use the promotional materials uniformly printed by insurance companies. Insurance products shall be sold in different sales areas based on the complexity of the products. The bank staff shall fully disclose the information of insurance products to customers, and shall not confuse the insurance products with bank saving deposit products, bank wealth management products, etc., nor exaggerate the return on insurance products and sell the products in misleading ways.

In addition, with respect to the financial management of the commission charges, such charges shall be calculated and recorded by insurance companies on an actual basis, and shall be paid by tier-one branches of insurance companies to tier-two or above branches of banks. For banks who meet the requirements, the headquarters of an insurance company shall centralize the payment to commercial banks' headquarters. For those who entrust regional commercial banks for conducting bancassurance business, the amount shall be paid by tier-one branches of insurance companies to the headquarters or tier-one branches of regional commercial banks.

Insurance Asset Management Companies

The Interim Provisions on the Administration of Insurance Assets Management Companies (effective on June 1, 2004) and Notice on Amending Some Provisions of the Interim Provisions on the Administration of Insurance Assets Management Companies (effective on April 7, 2011) set forth regulations on the establishment, modification, termination, scope of business, code of operations, risk control and supervision and administration of the insurance asset management companies. Insurance companies and insurance holding companies meeting certain conditions may establish insurance asset management companies, subject to regulatory approval.

According to the Interim Provisions on the Administration of Insurance Assets Management Companies and Notice on Amending Some Provisions of the Interim Provisions on the Administration of Insurance Assets Management Companies, an insurance asset management company should be set up by an insurance holding (group) company or an insurance company, and the insurance company or insurance holding (group) company shall meet certain requirements, including but not limited to: has carried insurance business for over five years; the solvency margin ratio shall be no less than 150%; the total assets shall be no less than RMB10 billion (the total assets of the insurance holding (group) company shall be no less than RMB15 billion); the proportion of assets used and managed in a centralized way by a company's asset management function shall be no less than 50% of the total assets of the company (of which such proportion of an insurance company that has life insurance business shall be no less than 80%); has established corresponding departments for assets-liability management and risk control, and has a comprehensive, investment information management system.

The minimum registered capital of an insurance asset management company shall be RMB100 million or an equivalent amount in other exchangeable currencies. The registered capital

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should be monetary paid-in capital. According to the Interim Provisions on the Administration of Insurance Assets Management Companies, an insurance asset management company may engage in the following businesses:

- managing as a trustee the insurance funds in Renminbi or in foreign currencies entrusted by a trustor;
- managing and utilizing its own funds in Renminbi or in foreign currencies;
- conducting asset management business; and
- other businesses as determined by the CIRC or other organs under the State Council.

Reinsurance Requirement

Under the PRC Insurance Law, the liability of an insurance company for the maximum amount of loss that may be caused by a single insured event may not be more than 10% of the sum of paid-in capital and the reserve fund. Any portion exceeding the 10% limit must be reinsured. According to the Provisions on the Administration of Reinsurance Business, an insurance company shall determine its total retained insurance premiums and its retained responsibility for each risk unit for the current year. Reinsurance shall be conducted for the excess of the above mentioned amounts.

Risk Control in Reinsurance Operations

On November 15, 2007, the CIRC issued the Circular Concerning Safety and Soundness Issues in Reinsurance Operations, which became effective on January 1, 2008. Pursuant to the Circular Concerning Safety and Soundness Issues in Reinsurance Operations, a PRC insurance company which cedes reinsurance must establish a sound risk management system and review its reinsurance plans on an annual basis. In addition, the reinsurer to whom a PRC insurance company may cede reinsurance must satisfy the following requirements:

- except for nuclear insurance and aviation and aerospace insurance, the leading reinsurer (or the reinsurer assuming the largest portion of reinsurance) of treaty reinsurance must be (i) a state-owned or a state-controlled insurance company or (ii) an insurance agency with its latest financial performance ratings at least meeting the standards set forth in the Circular Concerning Safety and Soundness Issues in Reinsurance Operations;
- except for nuclear insurance and aviation and aerospace insurance, the reinsurer must have paid-in capital of no less than RMB200 million or its equivalent in other currencies. When the lead reinsurer or the reinsurer assuming the largest portion of reinsurance is not a professional reinsurance agency, such reinsurer must have paid-in capital of no less than RMB1 billion or its equivalent in other currencies;
- the reinsurer must be in compliance with solvency requirements imposed by the local supervision authorities of its place of incorporation; and
- the reinsurer must have not committed any material violations of laws or regulations in the two fiscal years immediately preceding the commencement date of the reinsurance contract.

Anti-Money Laundering

According to the PRC Anti-Money Laundering Law and the Provisions on Anti-money Laundering through Financial Institutions and other relevant regulations, financial institutions incorporated in the PRC are subject to the following obligations, among other things:

- a financial institution and each of its branch entities shall establish a sound internal control system of anti-money laundering in accordance with the law;
- a financial institution shall set up and implement a client identification system according to the relevant provisions;
- a financial institution shall properly preserve a client's identification materials and relevant materials, which contain each transaction's data, business vouchers and accounting information for a prescribed period of time;
- a financial institution shall report to the China Anti-Money Laundering Monitoring and Analysis Center any large-sum transaction or any suspicious transaction in RMB or in a foreign currency;
- if a financial institution suspects of any criminal activities, it shall timely submit a written report to the local branch of the PBC and to the local public security bureau;
- a financial institution shall submit anti-money laundering statements and materials to the PBC in accordance with the law; and
- a financial institution and its staff members have an obligation to assist in the anti-money laundering law enforcement activities.

According to the Notice on Strengthening the Anti-money Laundering Work in the Insurance Sector issued by the CIRC on August 10, 2010 and the Measures for the Administration of Anti-money Laundering Work in the Insurance Sector issued by the CIRC on September 13, 2011, insurance companies are further subject to the following obligations, among other things:

- the source of investment funds used for buying shares and assuming changes on shareholding structure in an insurance institution shall meet the relevant requirements of the anti-money laundering laws and regulations of China. In the event of an increase in the company's registered capital, a change in its shareholding (the purchase of shares representing less than 5% of the registered capital of a publicly-listed institution is exempt) and in other situations required by the CIRC, an insurance institution shall be aware of the source of the investment funds, and submit a description of the source of investment funds and a declaration that the source of investment funds is compliant with the laws and regulations of China;
- the newly-established insurance institutions shall meet the corresponding anti-money laundering requirements (including but not limited to that the legitimate source of investment funds, anti-money laundering arrangements under the risk control system, and anti-money laundering functions of the information system);
- the application of establishment of a branch office shall meet the corresponding anti-money laundering requirements (including but not limited to that the headquarters shall have comparatively sound internal control systems and operating procedures of anti-money laundering and have comparatively strong control over the branch office's implementation of such system and procedures, and that the applicant has not received any serious anti-money laundering administrative penalty in the past two years and is not involved in any criminal proceedings as a suspect of any money laundering activity);

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- the application materials for approval of qualification of senior management in an insurance institution shall include a declaration made by the applicant that he/she has not received any serious anti-money laundering administrative penalty in the past two years (if the applicant has practiced in any overseas financial institution, he/she shall provide a declaration that he/she has not received any serious anti-money laundering administrative penalty at the location of any overseas financial institution in the past two years); and
- all insurance organizations and intermediaries shall regularly and timely collect and report their anti-money laundering information, timely ascertain the status of the development of anti-money laundering, prevent the risks with respect to money laundering in the insurance organizations and intermediaries, and conduct well-planned trainings in order to strengthen the awareness of anti-money laundering and raise the standard of anti-money laundering.

Major Impact on Insurance Industry upon PRC's Accession to the WTO

The PRC joined the WTO in December 2001 and made a series of commitments relating to the insurance industry to the WTO which generated positive impact on foreign insurance business development. The stipulations on operating insurance business by foreign institutions under the PRC laws and regulations so far are briefly summarized as follows.

Foreign-Invested Insurance Companies

Under the Administrative Regulations on Foreign-Invested Insurance Companies and related implementing rules, foreign insurance companies can, subject to the CIRC's approval, establish foreign-invested insurance companies within the PRC in the form of joint ventures, wholly foreign-owned enterprises or branches.

Foreign insurance companies applying to establish a foreign-invested insurance company shall meet the following requirements:

- having been engaged in the insurance business for at least 30 years;
- having a representative office within the PRC for at least two years;
- having total assets of US\$5 billion or more as of the end of the year prior to the application;
- being subject to effective and comprehensive insurance regulations in their home countries or regions;
- meeting the solvency margin requirements in their home countries or regions;
- having received approvals from the regulatory authorities in their home countries or regions of their applications; and
- meeting other prudent requirements set forth by the CIRC.

Joint venture insurance companies and wholly foreign-owned insurance companies with minimum registered capital of RMB200 million shall increase their registered capital by at least RMB20 million for each branch they apply to open for the first time in each province, autonomous region or directly-administered municipality other than their place of domicile. If the registered capital of the joint venture insurance companies and wholly foreign-owned insurance companies has reached the amount of the registered capital after the required increase

mentioned above at the time when it applies for setting up a branch company, it is no longer required to increase the registered capital accordingly. Joint venture insurance companies and wholly foreign-owned insurance companies with the registered capital of at least RMB500 million are not required to increase their registered capital for establishing branches, as long as they meet the solvency margin requirement.

Restrictions on Foreign Equity Ownership

Since the PRC's accession to the WTO in 2001, foreign life insurers currently have been permitted 50% foreign ownership in a joint venture with a partner of their choice. The joint venture partners may freely agree on the terms of their joint venture, provided that the terms remain within the limits of the commitments contained in the WTO schedule.

Currently, foreign investors are permitted to hold up to 51% of ownership in a joint venture insurance brokering company engaging in brokerage business for (i) large scale commercial risks insurance; (ii) reinsurance; and (iii) international marine, aviation and transport insurance and reinsurance. In addition, pursuant to a CIRC announcement on December 11, 2006, foreign insurance brokerage companies are permitted to set up wholly foreign-owned insurance brokerage companies in the PRC within the permitted business scope, subject to qualification requirements. Additional branching of foreign insurance companies will be permitted consistent with the phase-out of geographic restrictions.

Representative Offices of Foreign Insurance Companies

According to the Measures for the Administration of Foreign Insurance Institutions' Representative Offices in China, effective as of August 1, 2006, the establishment of a representative office of a foreign insurance company must meet the following requirements:

- be in good operating condition;
- having engaged in the insurance business for more than 20 years if such a foreign insurance company operates an insurance business or having been in existence for more than 20 years in all other cases;
- having no material violation of laws within the three years immediately prior to the application; and
- other prudent requirements set by the CIRC, including, among other things, the total assets of a foreign insurance company, as of the year end prior to the company's application for registration, must be over US\$2 billion.

Scope of Business of Foreign-Invested Insurance Companies

Since the PRC's accession to the WTO, foreign life insurers have been permitted to provide individual but not group insurance to foreign persons and PRC citizens. Foreign life insurers are now permitted to provide health insurance, group insurance, pension and annuities insurance to foreigners and PRC citizens.

On the basis of national treatment, foreign insurance brokers are now permitted to provide "master policy" insurance, no later than PRC brokers, under conditions no less favorable than PRC insurance brokers.

Since the PRC's accession to the WTO, foreign insurers have been permitted to provide reinsurance services for life and non-life insurance as a branch, joint venture, or wholly foreign-

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owned subsidiary, without geographic or quantitative restrictions on the number of licenses issued.

Prohibited Activities for Foreign-Invested Insurance Companies

Foreign-invested insurance companies are not permitted to engage in compulsory insurance, such as compulsory auto liability insurance, liability insurance for drivers and operators of public transportation vehicles and commercial vehicles.

Geographic Limitation

Currently, foreign insurance companies are permitted to conduct business throughout the PRC without any geographic restriction.

Scope for Statutory Reinsurance

In accordance with the Circular of the CIRC on the Relevant Policies Concerning Statutory Reinsurance, which became effective on October 28, 2002, the statutory reinsurance requirement has been removed, effective on January 1, 2006.

PRC Securities Laws and Regulations

As our A Shares will be listed on the Shanghai Stock Exchange on December 16, 2011, we will be subject to PRC Securities Law and the Shanghai Listing Rules. The Shanghai Listing Rules regulate share listing and information disclosure by the listed companies and seek to maintain the orderly operation of the stock exchange market and protect the interests of the investors. As a company with A Shares to be listed on the Shanghai Stock Exchange, we will be subject to a number of obligations under the Shanghai Listing Rules, including:

- publishing annual, semi-annual and quarterly reports;
- disclosing all information that may have a material impact upon our share price;
- making announcements in relation to certain corporate matters; and
- appointing a secretary to our Board, who is responsible for, among other things, certain corporate administration matters and information disclosure matters.

We will also be subject to a number of PRC laws governing the securities markets. The CSRC is responsible for drafting regulatory provisions governing securities markets, supervising securities companies, regulating public offerings of securities by public PRC companies, and regulating trading of securities. For example, a listed company is prohibited from using insider information in connection with the issue of or trading in securities. A company that has securities listed in the PRC and overseas must also simultaneously disclose material information to the investing public pursuant to both the laws and regulations of the PRC and the applicable laws and regulations of the other market in which such company's securities are listed. Further information is set forth in Appendix VII — "Summary of Principal Legal and Regulatory Provisions."

Compliance with Laws and Regulations

As of June 30, 2011, our statutory deposits, insurance reserves, insurance security fund, statutory fund and solvency margin ratios were in compliance with the applicable regulatory requirements.

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As of September 30, 2011, our solvency margin ratio was 86.6%, which was below the minimum solvency margin ratio requirement prescribed by the CIRC.

In the opinion of Commerce & Finance Law Offices, our PRC legal counsel, and the Directors confirm that we have complied in all material respects with all regulatory requirements, that are set forth in this section headed "Supervision and Regulation" except as described in the sections headed "Risk Factors — Risks Relating to Our Company — We may not, prior to receiving the proceeds from our Global Offering and A Share Offering, meet the minimum solvency margin ratio requirement. If we fail to satisfy the regulatory requirements regarding solvency margin ratio, the regulatory authorities may impose limitations on our insurance business operations and investment activities, which may have a material adverse effect on our business, results of operations and financial condition," "Risk Factors — Risks Relating to Our Company — Litigation and disputes may result in significant financial losses and reputational harm," and "Risk Factors — Risks Relating to Our Company — We have not obtained title certificates to some of the properties we occupy and some of our landlords lack the relevant title certificates for properties leased to us, which may materially and adversely affect our rights to use such properties."